CANADIAN EQUIPMENT RENTALS

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

Dated April 25, 2017

The following management's discussion and analysis ("MD&A") provides an overview of the events and transactions that have affected the performance of Canadian Equipment Rentals Corp. ("Canadian Equipment Rentals" or the "Company" or "our" or "we") for the three and twelve month periods ended December 31, 2016 when compared to the three and twelve month periods ended December 31, 2015. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto of Canadian Equipment Rentals for the years ended December 31, 2016 and 2015. These consolidated financial statements are available on the Company's website at www.cerfcorp.com as well as on SEDAR at www.sedar.com.

This MD&A is management's assessment of Canadian Equipment Rental's operations and financial results, as well as management's view of future prospects. These assessments and views are based on certain assumptions related to future events which are uncertain. Statements related to assessments and views which are not statements of historical fact are considered to be forward-looking statements. For a discussion on the risks and uncertainties related to such information please refer to "Forward-Looking Statements" below.

This MD&A has been prepared by management and reviewed and approved by the Board of Directors of Canadian Equipment Rentals as of April 25, 2017.

## OVERVIEW AND CORPORATE PROFILE

Canadian Equipment Rentals Corp. is a Canadian public corporation and is currently the parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the rental of surface equipment and accommodations to the Western Canadian Oil and Gas Industry. The Company trades on the TSX Venture Exchange under the symbol "CFL". Through most of 2016 the Company operated three separate business segments: (i) Energy Services; (ii) General Rentals; and (iii) Waste Management.

The Energy Services segment provides surface wellsite equipment rentals, and wellsite accommodations rentals to support the drilling operations of energy and production companies operating in the Western Canada Sedimentary Basin. This segment operates as Zedcor Energy Services ("Zedcor") from its main facility in Leduc, Alberta, sales office in Calgary, Alberta and operating yards in Grande Prairie, Alberta, Fort St. John, British Columbia and Estevan, Saskatchewan.

The General Rentals segment operated as 4-Way Equipment Rentals ("4-Way") and provided equipment rental solutions for construction and industrial projects in Edmonton, Alberta and surrounding areas from its facility in Edmonton, Alberta. On January 31, 2017, the Company announced that it had entered into an asset purchase agreement with Cooper Rentals Canada Inc. to sell all the net assets of 4-Way Equipment Rentals. The sale closed on February 9, 2017.

The Waste Management segment operated as MCL Waste Systems & Environmental ("MCL") and managed and operated six major landfills, two waste management transfer sites all in Alberta, and provides disposal and recycling services for clientele in a variety of industries. On November 17, 2016, the Company announced it has signed a share purchase agreement to sell MCL to a private Canadian waste management and recycling services company. The sale closed December 1, 2016.

## EXECUTIVE SUMMARY:

## Selected Financial Highlights

***Amounts in the following tables are presented in thousands of dollars, except for per share amounts and percentages.***

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **2016** | **2015** |
| **Revenue** | 3,444 | 2,426 | 10,598 | 17,438 |
| **Adjusted EBITDA**[1,2] | 505 | 959 | 2,347 | 10,914 |
| **Adjusted EBIT**[1,2] | (4,065) | (1,740) | (20,213) | (303) |
| **Net loss from continuing operations** | (3,106) | (16,032) | (19,617) | (29,520) |
| **Net (loss) income per share from continuing operations** | | | | |
| **Basic** | ($0.08) | ($0.44) | ($0.49) | ($0.81) |
| **Diluted** | ($0.08) | ($0.44) | ($0.49) | ($0.81) |
| **Dividends declared** | — | — | — | 5,808 |

Amounts in table represents continuing operations, which are comprised of the Energy Services segment and Corporate

1 *Adjusted for severances and business acquisition costs*
2 *See Financial Measures Reconciliations below*

- On February 2, 2016, the Company acquired all the outstanding common and preferred shares of Zedcor Oilfield Rentals Ltd., a private oilfield equipment rental company with operations in Western Canada. This transaction added premier equipment rental assets with an average age of approximately three years and expanded the Company's geographic footprint and customer base. The acquisition was financed through a combination of the issuance of $4.7 million common and preferred shares, the payout of $12.8 million in debt and the issuance of a subordinated vendor take-back note with a fair value of $3.7 million.
- On May 6, 2016, the Company completed the acquisition of all the assets used in the business of Summit Star Energy Services Inc. ("Summit Star"). The Company issued 1,713,318 common shares for the assets of Summit Star, which when multiplied by the volume weighted average price of the common shares of the Company over the 30 preceding trading days resulted in a stated purchase price of $0.8 million. The market closing price of $0.40 per share on the acquisition date was used to value the 1,713,318 common shares, resulting in the recorded purchase price of $0.7 million.
- On November 17, 2016, the Company announced it signed a share purchase agreement to sell its Waste Management operating segment to a private Canadian waste management and recycling services company. The transaction closed December 1, 2016 and net proceeds of $11.5 million were used to pay down senior debt.
- On January 31, 2017, the Company announced that it had entered into an asset purchase agreement with Cooper Rentals Canada Inc. to sell all the assets of 4-Way Equipment Rentals. The transaction closed on February 9, 2017. Net proceeds were used to pay down senior debt. As at December 31, 2016 the assets and liabilities related to the sale were classified as held for sale and an impairment of $3.9 million was recognized.

- Both the Waste Management and General Rentals segments were classified as discontinued operations as at December 31, 2016. As a result, their financial results are reported separately from continuing operations on the statement of comprehensive income. The comparative statements of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.
- Revenues for the quarter ended December 31, 2016 increased by $1.0 million or 42% from $2.4 million to $3.4 million compared to the similar quarter in 2015. This is attributable to the acquisition of Zedcor Oilfield Rentals Ltd. in the first quarter of 2016, along with an increase in utilization rates quarter over quarter.
- Net loss for the quarter ended December 31, 2016 decreased by $12.9 million from a loss of $16.0 million to a loss of $3.1 million compared to the similar quarter in 2015. Of the $16.0 million loss in the fourth quarter of 2015, $14.0 million is a result of goodwill impairment recognized in the Energy Services business due to significant decline in revenues from that segment.
- Adjusted EBITDA for the quarter ended December 31, 2016 decreased by $454,000 or 47% from $959,000 to $505,000 compared to the similar quarter in 2015. This decrease is a result of increased general and administrative costs due to the acquisition of Zedcor Oilfield Rentals Ltd.
- For the year ended December 31, 2016, revenues decreased by $6.8 million or 39% from $17.4 million to $10.6 million compared to the year ended December 31, 2015. In direct relation, Adjusted EBITDA decreased by $8.6 million from $10.9 million to $2.3 million. Although commodity prices started to improve slightly in the latter half of the year, the low crude oil and natural gas price environment continues to have a negative impact on the oil and gas sector and demand for rental equipment. The Energy Services segment continued to see historically low rental rates in 2016.
- During the year the Company decided to sell certain under-utilized and obsolete rental assets in both the General Rentals and Energy Services segment. An impairment of $5.6 million was recognized in the first quarter and an additional impairment of $2.4 million was recognized in the third quarter. As at December 31, 2016 all under-utilized equipment held for sale had been sold.
- For the both the quarter ended September 30, 2016 and December 31, 2016, the Company was in breach of its financial leverage and interest coverage covenants as defined in the April 28, 2016 Third Amending Credit Agreement, which resulted in a default of the senior credit covenants. See further details in Liquidity and Capital Resources section below.

## SELECTED QUARTERLY FINANCIAL INFORMATION

| (Unaudited – in $000s) | Dec 31 2016 | Sept 30 2016 | June 30 2016 | Mar 31 2016 | Dec 31 2015 | Sept 30 2015 | June 30 2015 | Mar 31 2015 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 3,444 | 2,374 | 1,469 | 3,311 | 2,426 | 2,954 | 2,384 | 9,673 |
| **Net income (loss) from continuing operations** | (3,106) | (8,680) | (4,683) | (3,148) | (16,032) | (12,893) | (1,387) | 1,150 |
| **Net income (loss) from discontinued operation** | (3,062) | (904) | (92) | (954) | (659) | 254 | (579) | 453 |
| **Adjusted EBITDA[1]** | 505 | 461 | 294 | 1,131 | 959 | 3,012 | 1,274 | 6,048 |
| **Adjusted EBITDA per share** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **- basic[1]** | 0.01 | 0.01 | 0.01 | 0.03 | 0.03 | 0.08 | 0.03 | 0.17 |
| **Net income (loss) per share from continuing operations** | | | | | | | | |
| **Basic** | (0.08) | (0.21) | (0.12) | (0.08) | (0.44) | (0.35) | (0.04) | 0.03 |
| **Diluted** | (0.08) | (0.21) | (0.12) | (0.08) | (0.44) | (0.35) | (0.04) | 0.03 |
| **Net income (loss) per share from discontinued operation** | | | | | | | | |
| **Basic** | (0.07) | (0.02) | 0.00 | (0.02) | (0.02) | 0.01 | (0.02) | 0.01 |
| **Diluted** | (0.07) | (0.02) | 0.00 | (0.02) | (0.02) | 0.01 | (0.02) | 0.01 |
| **Adjusted free cash flow[1]** | 386 | (1,807) | 1,011 | 3,112 | (6) | (690) | 2,675 | 3,442 |

[1] *See Financial Measures Reconciliations below*

## OPERATING SEGMENT REVIEW

In 2016 and 2015 results were reported (including gross margins) in three business segments: Energy Services, General Rentals, and Waste Management. This reporting structure reflects how the business is managed and how it classifies the operations for planning and performance measurement. The discussion of segment operating performance is set out below.

### Energy Services Segment

Canadian Equipment Rentals Energy Services segment provides surface wellsite equipment rentals, downhole equipment and wellsite accommodation rentals to support the drilling operations of energy and production companies operating in the Western Canada Sedimentary Basin.

**ENERGY SERVICES SEGMENT RESULTS**

| | **Three months ended December 31** | | | **Twelve months ended December 31** | | |
|---|---|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **% change** | **2016** | **2015** | **% change** |
| **Revenue** | 3,444 | 2,426 | 42% | 10,598 | 17,437 | (39%) |
| **Direct costs and depreciation of operating assets *** | 3,408 | 3,258 | 5% | 12,333 | 16,412 | (25%) |
| **Margin** | 36 | (832) | 104% | (1,735) | 1,025 | (269%) |
| **Margin %** | 1% | (34%) | | (16%) | 6% | |

** Depreciation excludes gain/loss on disposal of assets in segment results.*

**Operational Review**
*Q4 2016 vs Q4 2015*

The Energy Services segment includes the aggregate operations of TRAC Energy Services Ltd. and Zedcor Oilfield Rentals Ltd, which now operates as Zedcor Energy Services Corp. and represents 100% of the Company's continuing operations.

Low commodity prices in the oil and gas industry continue to impact the activity levels in Western Canada's energy sector. For the first three quarters of 2016, operators' capital spending reductions persisted, causing project delays, low drilling activities and low utilization of the Energy Services segment rental equipment. The segment began to see improved utilization rates for the fourth quarter of 2016 in comparison to the fourth quarter of 2015 resulting in improved revenue quarter over quarter. However, the weak demand for equipment and high competition from other service providers with idle assets have led to aggressive pricing measures, decreasing operating margins year over year.

For the quarter ended December 31, 2016, Energy Services revenues increased by $1.0 million or 42% compared to the similar period in 2015. This revenue increase is due in part to the acquisition of Zedcor Oilfield Rentals Ltd. and in part to improved utilization rates.

Direct operating costs, excluding depreciation, were reduced by $258,000, or 15%, for the quarter ended December 31, 2016 compared to the quarter ended December 31, 2015 due to numerous cost saving initiatives. These cost saving initiatives included reduction of headcount, reduced labor hours, a 5% division wide salary decrease and consolidation of operating facilities. Quarter over quarter depreciation expense increased by $0.8 million due to the aggregate $23.5 million Zedcor and Summit Star fixed asset acquisitions early in 2016.

The resulting margin for the quarter ended December 31, 2016, increased to 1% compared to negative 34% for the comparative quarter in 2015.

For the year ended December 31, 2016, revenues declined by $6.8 million or 39% compared to the year ended December 31, 2015, due to significantly depressed day rates resulting from increased competition arising from reduced industry activity.

For the year ended December 31, 2016, direct costs excluding depreciation decreased by $5.8 million or 55% from $10.3 million in 2015 to $4.6 million in 2016. This was a direct result of decreased revenue and cost saving initiatives.

Depreciation for the year ended December 31, 2016 increased by $1.8 million from $6.0 million to $7.8 million compared to the year ended December 31, 2015. The increase in depreciation is a result of the increase in asset base from the acquisition of Zedcor Oilfield Rentals and Summit Star assets. As a result margins for the year ended December 31, 2016 decreased to negative 16% compared to 6% for December 31, 2015.

## General Rentals
### Reported as Discontinued Operation

Canadian Equipment Rentals General Rentals segment provided equipment rental solutions for construction and industrial projects in Edmonton and surrounding areas. The General Rentals segment was sold as at February 9, 2017.

**GENERAL RENTALS SEGMENT RESULTS**

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **% change** | **2016** | **2015** | **% change** |
| **Revenue** | 1,831 | 3,508 | (48%) | 7,780 | 15,464 | (50%) |
| **Direct costs and depreciation of operating assets *** | 1,768 | 2,949 | (40%) | 7,974 | 11,908 | (33%) |
| **Margin** | 63 | 559 | (89%) | (194) | 3,556 | (105%) |
| **Margin %** | 3% | 16% | | (2%) | 23% | |

** Depreciation excludes gain/loss on disposal of assets in segment results.*

**Operational Review**
*Q4 2016 vs Q4 2015*

For the year ended December 31, 2016 and 2015, the General Rentals segment has been classified as a discontinued operation in the statement of comprehensive income. General rentals revenue represented 25% of total revenues of the Company for the quarter and year ended December 31, 2016.

For the quarter ended December 31, 2016, General Rental revenue declined by $1.7 million or 48% compared to the quarter ended December 31, 2015. For the year ended December 31, 2016, revenue decreased similarly by 50% compared to the year ended 2015. The decrease results from the overall weak Alberta economy driven by significant declines in oil and gas prices which has negatively affected industrial activity and increased competition from new entrants into the local market. For the General Rentals segment, this has specifically reduced utilization of the equipment fleet and depressed day rate pricing because of lower demand for industrial rental equipment coupled with increased competition. Weak demand for equipment and high competition from other service providers with idle assets led to aggressive pricing measures, decreasing operating margins year over year.

Direct costs and depreciation of operating assets decreased by 40% for the quarter ended December 31, 2016 and 33% for the year ended December 31, 2016, as a direct result of the decrease in revenues for the same quarter. Depreciation expense for the quarter ended December 31, 2016 decreased by $162,000 or 16% over the same period in 2015 resulting from the sale of underutilized assets during the year.

## SUBSEQUENT EVENTS

On January 31, 2017, the Company executed a definitive asset purchase agreement to sell the net assets of the General Rentals operating segment and wholly owned subsidiary, 4-Way Equipment Rentals Corp. for $8.5 million. The sale closed on February 9, 2017.

On February 28, 2017, the Company's Syndicated Bank Credit Facility was amended under the Sixth Amending Agreement to extend the forbearance term to April 28, 2017.

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of $20.4 million will be used to repay the existing Syndicated Credit Facility, will bear interest at a rate of 12.75% and has a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement will be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement does not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company. The Company shall issue the lender share purchase warrants entitling the lender to acquire common shares in the Company representing approximately 6.5% of the fully diluted equity at the time of exercise, at an exercise price of $0.25 per warrant. The warrants will expire 90 days after the term of the loan.

## Waste Management Segment
### Reported as Discontinued Operation

The Waste Management segment managed and operated five major landfills, two waste management facility contracts in Central and Northern Alberta, and provided disposal and recycling services for clientele in a variety of industries. On November 17, 2016, the Company sold its Waste Management operating segment and wholly owned subsidiary, MCL Waste Systems & Environmental Inc., to a private Canadian waste management and recycling services company for $12 million. The transaction closed on December 1, 2016.

## WASTE MANAGEMENT SEGMENT RESULTS

| (in $000s) | Two months ended Nov 30 2016 | Three Months ended Dec 31 2015 | % change | Eleven months ended Nov 30 2016 | Twelve Months Ended Dec 31 2015 | % change |
|---|---|---|---|---|---|---|
| **Revenue** | 2,150 | 2,895 | (26%) | 12,665 | 13,565 | (7%) |
| **Direct costs and depreciation of operating assets *** | 1,754 | 2,900 | (40%) | 10,555 | 11,898 | (11%) |
| **Margin** | 396 | (5) | 101% | 2,110 | 1,667 | 29% |
| **Margin %** | 18% | (0%) | | 17% | 12% | |

** Depreciation excludes gain/loss on disposal of assets in segment results.*

### Operational Review

*Q4 2016 vs Q4 2015*

For the years ended December 31, 2016 and 2015, the Waste Management segment has been classified as a discontinued operation in the statement of comprehensive income. The segment was sold on December 1, 2016, therefore the results reported above are for the two months ended November 30, 2016 and the eleven months ended November 30, 2016. As the Waste Management segment was classified as held for sale on September 30, 2016, no depreciation was recognized for October and November 2016 resulting in lower depreciation of operating assets and higher margins for 2016.

## OTHER EXPENSES

| (in $000s) | Three months ended Dec. 31 2016 | 2015 | % change | Twelve months ended Dec. 31 2016 | 2015 | % change |
|---|---|---|---|---|---|---|
| **General and administrative** | 2,162 | 1,547 | 40% | 7,607 | 3,758 | 102% |
| **Depreciation of administrative assets** | 72 | 24 | 200% | 186 | 98 | 90% |
| **Loss on sale of equipment** | 672 | — | 100% | 9,878 | — | 100% |
| **Amortization of intangible assets** | 165 | 357 | -54% | 661 | 1,427 | -54% |
| **Impairment of property and equipment** | 21 | — | 100% | 7,822 | — | 100% |
| **Impairment of goodwill and intangibles** | — | 13,983 | -100% | — | 26,529 | -100% |
| **Business acquisition** | — | 17 | -100% | 472 | 62 | 661% |
| **Finance costs** | 327 | 119 | 175% | 1,046 | 397 | 163% |
| **Purchase gain** | — | — | 0% | (2,664) | — | -100% |
| **Income taxes** | (1,246) | (847) | 47% | (7,126) | (1,726) | 313% |

For the three months ended December 31, 2016, total general and administrative expenses were $615,000 higher than the fourth quarter of 2015 mainly due to severance costs of $430,000. For the year ended December 31, 2016, general and administrative costs increased $3.8 million or 102%. This is largely due to additional personnel and infrastructure costs from the Zedcor acquisition, along with total severance costs of $1.1 million.

Finance costs consist of both interest costs on borrowed debt and loan syndication fees. Finance costs for the quarter ended and year ended December 31, 2016 increased by 175% and 163% respectively, this is a result of amending facility agreements with higher interest rates and standby charges.

The Company recorded a purchase gain of $2,664, representing the excess of the provisional estimated fair value of the acquired assets of Zedcor Oilfield Rentals Ltd. and Summit Star Energy Services Inc. over the purchase price.

### ASSETS HELD FOR SALE

As a result of low equipment utilization due to the oil and gas sector's downturn, the Company decided to sell certain under-utilized and obsolete rental assets in the Energy Services and General Rentals segment. As at March 31, 2016, the Company classified such equipment with a net realizable value of $3.7 million as assets held for sale. An impairment of $5.6 million was recognized prior to reclassification from property and equipment to assets held for sale. As at September 30, 2016, the Company classified additional under-utilized equipment with a net realizable value of $2.4 million as assets held for sale. An impairment of $2.4 million was recognized for these assets in the period ended September 30, 2016. As at December 31, 2016 all under-utilized equipment held for sale were sold.

## OUTLOOK

2016 has been a pivotal year for Canadian Equipment Rentals Corp. The acquisition of Zedcor Oilfield Rentals Ltd. ("Zedcor") and the subsequent divestitures of MCL Waste Systems & Environmental Inc. and 4-Way Equipment Rentals Corp., has repositioned the Company as a significant oilfield surface equipment rental company in the Western Canadian Sedimentary Basin.

As previously announced, the Company has signed a new Loan and Security Agreement, the proceeds of which will be used to repay the existing lenders. In conjunction with this refinancing, the Company is retiring $2.5 million of the Vendor Take Back Note in exchange for 10 million common shares. With this transaction and the refinancing, the directors of the Company will be appointing two new directors who will be of great value to the Company.

Through the restructuring efforts over the past ten months, including significant reductions in headcount at the executive level and reductions in associated discretionary spending, the Company now has a lean operating structure that can support the full utilization of the existing rental asset base. This structure, coupled with superior operational performance, service quality and a best-in-class equipment rental fleet are instrumental to maintaining and growing market share.

Drilling activity through the first quarter of 2017 has been stronger than expected which in turn has resulted in improved utilization. Activity in the second quarter of 2017 currently appears to also be stronger than the same period in the prior year. This improvement in demand for rental equipment should begin to drive improvements in equipment rental rates.

The Company continues to expand its market reach and customer base from beyond its traditional upstream energy services customers to new industry segments including industrial facilities and pipeline construction. This should lead to more diversity in its revenue streams and increase the utilization of existing rental equipment by penetrating new market segments that are less affected by seasonal fluctuations.

## LIQUIDITY AND CAPITAL RESOURCES

**Sources and Uses of Cash**

The following table shows a summary of the Company's cash flows by source or (use) for the year ended December 31, 2016 and 2015:

| | Twelve months ended December 31 | | | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **change** | **% change** |
| **Cash flow from (used in) continuing operating activities** | (3,582) | 6,918 | (10,500) | -152% |
| **Cash flow from (used in) investing activities** | 4,486 | (2,221) | 6,707 | 302% |
| **Cash flow from (used in) financing activities** | (3,844) | (5,940) | 2,096 | 35% |

The following table presents a summary of working capital information:

| | Twelve months ended December 31 | | | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **change** | **% change** |
| **Current assets** | 16,995 | 12,679 | 4,316 | 34% |
| **Current liabilities** | 31,380 | 4,165 | 27,215 | 653% |
| **Working capital** | (14,385) | 8,514 | (22,899) | -269% |
| **Working capital ratio** | 0.54 | 3.04 | (2.5) | -82% |

The primary uses of funds are operations expenses, maintenance and growth capital spending, and interest and principal payments on debt facilities. In general, the Company funds its operations and distributions with cash flow generated from operations, while growth capital and acquisitions are typically funded by issuing new equity or debt.

Cash used in investing activities is primarily for acquisitions and additions to property and equipment. During 2016, the Company significantly curtailed capital expenditures to projects only where replacement or repair of the asset was absolutely required or to projects which would generate an acceptable return within an acceptable time period.

The Company anticipates that future financing and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2017.

## Principal Credit Facility

| | **Effective interest rate** | **Final maturity** | **Facility maximum** | **Outstanding as at December 31, 2016** | **Outstanding as at December 31, 2015** |
|---|---|---|---|---|---|
| Revolving operating facility | 8.7% | 2017 | 32,500 | 29,041 | 27,500 |
| Revolving capital expenditure facility | — | — | — | — | 4,000 |
| | | | | 29,041 | 31,500 |
| Current portion | | | | (29,041) | (1,000) |
| Long term debt | | | | — | 30,500 |

On August 27, 2014, the Company entered into a syndicated credit facility with its banker acting as the lead syndication agent. The credit facilities are provided on a committed basis for a period of three years from August 27, 2014 and consist of:

a) A revolving operating facility with a maximum availability of up to $55,000 not to exceed 75% of accounts receivable, plus 50% of inventories held for resale, plus 60% of the net book value of rental equipment, less priority payables. No payments of principal are required under the operating facility as long as the loan does not exceed the margined assets.

b) A revolving Capex Facility with a maximum availability of up to $10,000. This facility may be used to finance 75% of the cost of non-rental equipment. Each draw against the Capex facility is repayable in 60 equal monthly payments of principal plus interest. However no principal payments are required during the fiscal year in which a term accommodation is advanced.

The credit facilities are secured by a General Security Agreement creating a first charge security interest over all of the Company's, including its subsidiaries, present and after acquired real property.

On December 29, 2015, the Syndicated Bank Credit Facility was amended to reflect extension of the maturity date of the agreement from August 27, 2017 to August 27, 2018.

On February 2, 2016, the Company's Syndicated Bank Credit Facility was amended under the Second Amending Agreement whereby consent was provided to proceed with the acquisition of Zedcor Oilfield Rentals Ltd., and to amend the financial covenant in respect of the Debt to EBITDA ratio as follows.

| Second Amending Agreement | Dec 31 2015 | Mar 31 2016 | June 30 2016 | Sept 30 2016 | Dec 31 2016 | Thereafter |
|---|---|---|---|---|---|---|
| Debt to EBITDA* | 4.00:1 | 4.25:1 | 4.00:1 | 4.00:1 | 3.50:1 | 3.00:1 |
| Interest Coverage Ratio** | 3.25:1 | 3.25:1 | 3.25:1 | 3.25:1 | 3.25:1 | 3.50:1 |

On April 28, 2016, the Company's Syndicated Bank Credit Facility was amended under the Third Amending Agreement to amend the financial covenant in respect of the Debt to EBITDA and Interest Coverage ratios as follows.

| Third Amending Agreement | Mar 31 2016 | June 30 2016 | Sept 30 2016 | Dec 31 2016 | Mar 31 2017 | Thereafter |
|---|---|---|---|---|---|---|
| Debt to EBITDA* | 5.75:1 | 5.50:1 | 5.50:1 | 4.00:1 | 3.50:1 | 3.00:1 |
| Interest Coverage Ratio** | 3.25:1 | 3.25:1 | 2.75:1 | 2.75:1 | 3.50:1 | 3.50:1 |

The Third Amending Agreement included a $10.0 million reduction in the authorized amount of the total facility from $65.0 million to $55.0 million. The resulting authorized amount was a $48.5 million revolving Operating Facility and a $6.5 million revolving Capex Facility.

For the quarter ended September 30, 2016, the Company was in breach of its financial leverage and interest coverage covenants included in the April 28, 2016 Third Amending Credit Agreement.

On November 24, 2016, the Company signed a Fourth Amending Agreement in which the lenders agreed to forbear from demanding repayment or enforcing its security under the Agreement. Under the terms of the amending agreement the authorized amount of the revolving facility was reduced to $46.1 million, while the authorized amount of the revolving capex facility remained $6.5 million.

On December 15, 2016 the Company's Syndicated Bank Credit Facility was amended under the Fifth Amending agreement. The fifth amending agreement included a reduction in the revolving facility amount from $46 million to $32.5 million and cancellation of the term facility commitment and operating facility.

Interest payable on all loans drawn under the credit facilities will range from bank prime rate plus 300 bps to bank prime rate plus 600 bps depending on the Company's Debt to EBITDA ratio. Under the terms of the Fifth Amending Credit Agreement, the Company was not in compliance of its financial leverage and interest coverage covenants as at December 31, 2016 and all debt held with the creditors is classified as current.

| | Requirement | Actual at December 31, 2016 |
|---|---|---|
| Debt to EBITDA* | Maximum of 4.00 times EBITDA | 9.11 times EBITDA |
| Interest Coverage Ratio** | Minimum of 2.75 times adjusted cash flow | 1.19 times adjusted cash flow |

* *EBITDA is a defined bank term and includes EBITDA of the trailing twelve months plus the pre-acquisition EBITDA of business acquisitions in the trailing twelve month period.*
** *Interest Coverage ratio is calculated as finance costs for the trailing twelve months divided into the trailing twelve month adjusted cash flow which is defined as EBITDA less taxes paid and dividends paid on a proforma twelve months basis.*

A breach constitutes an event of default under the Agreement, which provides the lenders several alternatives including a waiver of the breach, an amendment to the Agreement to reset the covenants or a requirement to repay the borrowings.

On February 16, 2017, the Company's Syndicated Credit Facility was amended under the Sixth Amending Agreement in which the lenders agree to forbear from demanding repayment or enforcing its security under the agreement until April 28, 2017.

On April 21, 2017, the Company entered into a Loan and Security Agreement with a new lender. The Loan and Security Agreement in the amount of $20.4 million will be used to repay the existing Syndicated Credit Facility, will bear interest at a rate of 12.75% and has a term of 12 months with an option to extend for an additional 12 months at the satisfaction of the lender. The Loan and Security Agreement will be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement does not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company. The Company shall issue the lender share purchase warrants entitling the lender to acquire common shares in the Company representing approximately 6.5% of the fully diluted equity at the time of exercise, at an exercise price of $0.25 per warrant. The warrants will expire 90 days after the term of the loan.

## Commitments and obligations

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and finance and operating lease obligations as at December 31, 2016:

| (in $000s) | 1 Year | 2-3 years | 4-5 years | Thereafter | Total | Carrying value |
|---|---|---|---|---|---|---|
| **Accounts payable and accrued liabilities** | 1,794 | — | — | — | 1,794 | 1,794 |
| **Long-term debt** | 29,041 | — | — | — | 29,041 | 29,041 |
| **Note payable** | — | — | 6,250 | — | 6,250 | 4,149 |
| **Total** | 30,835 | — | 6,250 | — | 37,085 | 34,984 |

## DIVIDENDS

Dividends are declared at the discretion of the Board of Directors. The Company's ability to pay dividends is determined by financial performance, debt repayment requirements, capital and working capital requirements.

Dividends, when paid, are normally declared quarterly to shareholders of record near the last day of the quarter and paid on or about the 15th of the month following the record date.

On February 2, 2016, the Company announced that it suspended payment of further dividends until further notice.

Cash dividends paid per share are summarized below:

| Declaration Date | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| March 31 | $0.12 | $0.06 | $0.06 | $0.06 | $0.06 | $0.06 | $0.06 | $0.00 |
| June 30 | 0.12 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.00 |
| September 30 | 0.12 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.02 | 0.00 |
| December 31 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.02 | 0.00 |
| **Total** | $0.42 | $0.24 | $0.24 | $0.24 | $0.24 | $0.24 | $0.16 | $0.00 |

## RELATED PARTY TRANSACTIONS

On May 6, 2016 the Company acquired all the assets of Summit Star Energy Services Inc., which was controlled by the Executive Chairman of the Company. The purchase price of $685,000 was settled by issuing 1,713,318 common shares of Canadian Equipment Rentals. The acquisition was made in the normal course of operations at a purchase price that would have been paid to unrelated parties. The Company recorded a purchase gain of $340,000 for the excess of the provisional estimated fair value of the acquired net assets over the purchase price.

During the year ended December 31, 2016, the Company paid rent for occupied premises of $95,000 (2015 -$113,000) to a company owned by a director of the Company.

During the year ended December 31, 2016, the Company paid $80,000 (2015 - $84,000) in wages to close family members of directors and executive officers.

During the year ended December 31, 2016, the Company paid $981,000 (2015 - $13,000) to three corporations controlled by the Executive Chairman of the Company for business development, marketing expenses and capital asset purchases.

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2016 $69,000 (2015 - $nil) due from related parties was unpaid.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements other than the operating leases for the premises and equipment described above under Liquidity and Capital Resources above.

## FINANCIAL MEASURES RECONCILIATIONS

Canadian Equipment Rentals uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.
Investors are cautioned that EBITDA, adjusted EBITDA, adjusted EBITDA per share and adjusted free cash flow are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

### *EBITDA and Adjusted EBITDA*

EBITDA refers to net income before finance costs, income taxes, depreciation, amortization, and gains or losses on disposal of property and equipment. Adjusted EBITDA is calculated as EBITDA before costs associated with business acquisition costs and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. "Adjusted EBITDA per share – basic" refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

A reconciliation of net income to Adjusted EBITDA is provided below:

| | **Three months ended December 31** | | **Twelve months ended December 31** | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **2016** | **2015** |
| **Net loss from continuing operations** | (3,106) | (16,032) | (19,617) | (29,520) |
| Add: | | | | |
| Finance costs | 327 | 119 | 1,046 | 397 |
| Depreciation | 2,932 | 1,505 | 7,887 | 6,119 |
| Amortization of intangibles | 165 | 357 | 661 | 1,427 |
| Impairment of property and equipment | 21 | — | 7,822 | — |
| Impairment of intangibles and goodwill | — | 13,983 | — | 26,529 |
| Loss on sale of equipment | 672 | — | 9,878 | — |
| Purchase gain | — | — | (2,664) | — |
| Income taxes (recovery) | (1,246) | (847) | (7,126) | (1,726) |
| Discontinued operation | 244 | 896 | 2,190 | 6,342 |
| **EBITDA** | 9 | (19) | 77 | 9,568 |
| Add: | | | | |
| Stock based compensation | 15 | 38 | 136 | 151 |
| Severance costs | 481 | 923 | 1,662 | 1,133 |
| Business acquisition costs | — | 17 | 472 | 62 |
| **Adjusted EBITDA** | 505 | 959 | 2,347 | 10,914 |

### *Adjusted EBIT*

Adjusted EBIT refers to earnings before interest and finance charges, taxes, severance, amortization and impairment of intangibles and business acquisition costs.

A reconciliation of net income to Adjusted EBIT is provided below:

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **2016** | **2015** |
| **Net loss from continuing operations** | (3,106) | (16,032) | (19,617) | (29,520) |
| Add: | | | | |
| Finance costs | 327 | 119 | 1,046 | 397 |
| Amortization of intangibles | 165 | 357 | 661 | 1,427 |
| Impairment of property and equipment | 21 | — | 7,822 | — |
| Impairment of intangibles and goodwill | — | 13,983 | — | 26,529 |
| Purchase gain | — | — | (2,664) | — |
| Income taxes (recovery) | (1,246) | (847) | (7,126) | (1,726) |
| Severance costs | 478 | 845 | 1,156 | 903 |
| Business acquisition costs | — | 17 | 472 | 62 |
| Discontinued operation | (704) | (182) | (1,963) | 1,625 |
| **Adjusted EBIT** | (4,065) | (1,740) | (20,213) | (303) |

### *Adjusted free cash flow*

Adjusted free cash flow is defined by management as net income plus non-cash expenses, plus or minus the net change in non-cash working capital, plus business acquisition expenses less maintenance capital. Maintenance capital is also a non-IFRS term. Management defines maintenance capital as the amount of capital expenditure required to keep its operating assets functioning at the same level of efficiency and to maintain the average age of the rental fleet at approximately the same average age as it was at the end of the previous year. Management believes that adjusted free cash flow reflects the cash generated from the ongoing operation of the business. Adjusted free cash flow is a non-IFRS measure generally used by dividend-paying companies as an indicator of funds available for re-investment, debt payment and dividend payment. There is no standardized method of determining free cash flow, adjusted free cash flow or maintenance capital prescribed under IFRS and therefore the Company's method of calculating these amounts is unlikely to be comparable to similar terms presented by other issuers.

Adjusted free cash flow from continuing operations is calculated as follows:

| | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **2016** | **2015** |
| **Net loss from continuing operations** | (3,106) | (16,032) | (19,617) | (29,520) |
| **Add non-cash expenses:** | | | | |
| Depreciation | 2,932 | 1,505 | 7,887 | 6,119 |
| Amortization of intangibles | 165 | 357 | 661 | 1,427 |
| Impairment of property and equipment | 21 | — | 7,822 | — |
| Impairment of intangibles and goodwill | — | 13,983 | — | 26,529 |
| Loss on sale of equipment | 672 | — | 9,878 | — |
| Purchase gain | — | — | (2,664) | — |
| Stock based compensation | 15 | 38 | 136 | 151 |
| Deferred taxes | (1,177) | (540) | (7,076) | (1,419) |
| | (478) | (689) | (2,973) | 3,287 |
| Severance | 478 | 845 | 1,156 | 903 |

| | | | | |
|---|---|---|---|---|
| Business acquisition expense | — | 17 | 472 | 62 |
| | — | 173 | (1,345) | 4,252 |
| Change in non-cash working capital from continuing operations | 404 | 15 | (247) | 2,886 |
| Maintenance capital | (18) | (194) | (700) | (2,614) |
| **Adjusted Free Cash Flow** | 386 | (6) | (2.292) | 4,524 |

## Selected Annual Information

***Amounts in the following tables are presented in thousands of dollars, except for per share amounts and percentages.***

| | | **Twelve months ended December 31** | |
|---|---|---|---|
| **(in $000s)** | **2016** | **2015** | **2014** |
| **Revenue from continuing operations** | 10,598 | 17,438 | 21,540 |
| **Net (loss) income from continuing operations** | (19,617) | (29,520) | 1,892 |
| **Net (loss) income per share from continuing operations** | | | |
| **Basic** | ($0.49) | ($0.81) | $0.08 |
| **Diluted** | ($0.49) | ($0.81) | $0.08 |
| **Net (loss) income from operations** | (24,630) | (30,052) | 5,073 |
| **Net (loss) income per share** | | | |
| **Basic** | ($0.61) | ($0.82) | $0.22 |
| **Diluted** | ($0.61) | ($0.82) | $0.22 |
| **Total Assets** | 77,649 | 99,848 | 144,321 |
| **Total Long Term Liabilities** | 4,149 | 34,416 | 34,912 |
| **Dividends declared** | — | 5,808 | 6,324 |

Amounts in table represents continuing operations, which are comprised of the Energy Services segment and Corporate

## FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information, including management's belief that improvement in demand should begin to drive improvements in equipment rental rates and that the expanded market reach and customer base will lead to more diversity in the Company's revenue stream and increase utilization. Forward-looking statements or information may contain statements with the words "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget", "should", "project", "would have realized', "may have been" or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-lookingstatements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that the Company's cost cutting measures that have been implemented will protect future margins and that the Company's lean operations will protect against profound down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will be proved to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this MD&A are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.

This MD&A also makes reference to certain non-IFRS measures, which management believes assists in assessing the Company's financial performance. Readers are directed to the section below entitled "Financial Measures Reconciliations" for an explanation of the non-IFRS measures used.

## NEW ACCOUNTING STANDARDS AND AMENDMENTS

### New accounting standards not yet adopted:

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2016, and have not been applied in preparing the Company's consolidated financial statements.

- Financial Instruments (IFRS 9) - The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- Revenue from Contracts with Customers (IFRS 15) – The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.
- Leases (IFRS 16) – The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The following judgments and estimates are those deemed by management to be material to the Company's consolidated financial statements.

### Critical Accounting Estimates

Amounts recorded for depreciation and amortization are based on the estimated useful lives and residual values of the underlying assets. Useful lives and residual values are based on Management's best estimate using knowledge of past transactions and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limitations to use. It is possible that changes in these factors may cause changes in the estimated useful lives and residual values of the Company's property, plant and equipment and intangible assets in the future.

When determining the fair value of assets acquired and liabilities assumed in business combinations, the Company uses various valuation techniques including income based approaches, which involves estimating the future net cash flows and applying the appropriate discount rate to those future cash flows to determine the fair value of the identifiable intangible assets acquired.

The Company tests annually, or when facts and circumstances indicate, whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined using the greater of fair value and value-in use. Fair value and value in use calculations require the use of estimates, assumptions, and judgments. Value-in-use calculations require Management to use assumptions regarding projected future sales, earnings, and capital investment, consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with specific cash flows. Fair value requires Management to make judgments of fair value using such estimates of market rental rates for equipment, discount rates, capitalization rates, and terminal capitalization rates.

Tax interpretations, regulations, and legislation, in the various jurisdictions in which the Company operate are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred taxes are assessment by Management at the end of the reporting period to determine the likelihood that they may be realized from future taxable earnings.

**Significant Management Judgments**

The Company's assets are segregated into cash-generating-units based on their ability to generate largely independent cash flows and used for impairment testing. The determination of the Company's cash-generating-units is subject to Management's judgment. The appropriate disclosures of liquidity and related financing received subsequent to year end was a matter of significant judgement.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2016, the Company's financial instruments consisted of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as at December 31, 2016 and 2015, due to their short-term maturities or floating interest rates.

In addition to liquidity risk described in "Liquidity and Capital Resources" above, the Company is exposed to credit, interest rate, and foreign exchange risks associated with its financial assets and liabilities.

**Credit risk:**

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Company.

The Company is exposed to credit risk with respect to accounts receivable as it has a concentration of customers involved in the oil and gas industry. The Company's accounts receivable represent balances owing by a number of unrelated companies and no single customer has an accounts receivable balance in excess of 10% of the year end receivable balance. Management believes that the Company's credit risk with respect to accounts receivable is limited due to the Company's broad customer base and management's conservative credit policy. Historically credit losses have not been material.

**Interest rate risk:**

Interest rate risk is the risk that the fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rates.

Occasionally the Company utilizes interest rate swap agreements to manage its exposure to interest rate increases. At December 31, 2016, there were no interest rate swaps agreements in place.

At December 31, 2016, a 1% change in interest rates on the floating rate debt would result in an increase or decrease in annual net income before income taxes of $290,000.

**Currency risk:**

Currency risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Company purchases equipment, parts and supplies from foreign suppliers that are denominated in United States dollars. At December 31, 2016 accounts payable and accrued liabilities did not include any material amounts denominated in foreign currencies. Management does not believe that its foreign currency risk would result in a material loss due to the short term nature of the foreign currency denominated payables and does not employ derivative instruments to manage foreign currency risk.

**BUSINESS RISKS AND UNCERTAINTIES**

The following is a summary of certain, but not all, risk factors relating to the Company's business.

*Impact of Economic Cycle and Commodity Prices*

The Company's equipment rental customers consist of companies operating primarily in the construction and oil and gas industries which are all affected by trends in the general economic conditions within their respective markets. Changes in the price of oil, interest rates, commodity prices, exchange rates, availability of capital, general economic prospects and adverse weather conditions may all impact their businesses by affecting levels of consumer, corporate and government spending. The Company's business and financial performance is largely affected by the impact of such business cycle factors on its customer base.

*Competition*

Competition in the oilfield rental industry is intense and growing. Canadian Equipment Rentals competes with national and international companies that have substantially greater personnel and financial resources, as well as better name recognition and larger customer bases. Also, given the potential size of the market, it is foreseeable that new competition with greater resources will be entering the marketplace on an on-going basis.

*No Long Term Rental Contracts*

The Energy Services segment rents equipment to customers for a limited time or sell equipment to customers primarily on a purchase order basis rather than on a long-term contractual basis. This causes short-term variability in demand by customers. Customers requesting equipment or submitting a purchase order may cancel, reduce or delay their order for a variety of reasons. This will affect the level and timing of orders placed and any resulting cancellations, reductions or delays in customer orders could negatively impact the Company's operating results.

*Dependence on Major Customers*

The Company generates approximately 61% of its revenue from its top ten customers, and there can be no assurance that the current customers will continue their relationships with the Company. The loss of one or more major customers, or any significant decrease in services provided to a customer, prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.

*Reliance upon Management*

Canadian Equipment Rentals Corp. is involved in the oilfield equipment rental industry. This industry may involve a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome.

*Dependence on Suppliers*

Failure of suppliers to deliver equipment in a timely and efficient manner could be detrimental to the Company's ability to keep customers and to expand. No assurances can be given that the Company will be successful in maintaining its required supply of equipment.

*Safety*

The services provided by the Company involve a number of hazards and risks on well-sites. To address these risks, the Company has developed and implemented safety and training programs. In addition, a comprehensive insurance and risk management program has been established to protect the Company's assets and operations.

*Economic and Political Conditions*

Changes in economic conditions, including, without limitation, recessionary or inflationary trends, commodity prices, equity market levels or strength, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows. In addition, economic and business conditions in our markets may be affected by disruptions in the financial markets caused by political or other events and such affects may adversely impact the Company's business, financial condition, and results of operations or cash flows.

*Capital Markets*

As a result of the weakened global economic situation, the Company, along with national and international companies with which it competes, have restricted access to capital, bank debt and equity, and is likely to face increased borrowing costs. The lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the rental industry and the Company's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

*Future Acquisitions*

The Company's growth strategy is based, in part, on its ability to acquire other assets or businesses. The success of this acquisition strategy will depend, in part, on its ability to:

- identify suitable assets or businesses to buy;
- negotiate the purchase price of those assets or businesses on acceptable terms;
- complete the acquisitions within the Company's expected time frame;
- improve the results of operations of the assets or businesses that the Company buys and successfully integrate their operations into its own; and
- respond to any concerns expressed by regulators, including anti-trust or competition law concerns.

Canadian Equipment Rentals may fail to properly complete any or all of these steps.

*Future Capital Requirements*

The Company will require alternative financing in order to sustain, grow and expand its operations. It is possible that required financing will not be available or, if available, will not be available on favorable terms. If the Company issues Common Shares to finance its operations, shareholders may suffer dilution of their investment. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities, or otherwise optimally respond to competitive pressures.

*Capital Requirements for Future Acquisitions*

The company cannot be certain that it will have enough capital or that it will be able to raise capital by issuing equity or debt securities or through other financing methods on reasonable terms, if at all, to complete the purchases of any oilfield equipment or businesses that it wants to acquire. Acquisitions will generally increase the Company's capital requirements unless they are funded from excess free cash flow, which the Company defines as free cash flow after dividends declared. Acquisitions financed with debt or equity capital will result in higher long-term debt or equity amounts recorded on the Company's consolidated statement of financial position. Higher debt levels can increase the Company's borrowing rates and can be expected to increase interest expense due to higher levels of outstanding indebtedness.

*Successfully Managing its Growth*

The Company's growth strategy will continue to place significant demands on its financial, operational and management resources. In order to continue its growth, the Company may need to add administrative, management and other personnel, and make additional investments in operations and systems. The Company cannot provide assurance that it will be able to find and train qualified personnel, or do so on a timely basis, or expand its operations and systems.

*Adequacy of Insurance Coverage*

The Company seeks to obtain and maintain, at all times, insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in those amounts, with those insurers, and on those terms it considers appropriate, taking into account all relevant factors, including the practices of owners of similar assets and operations. However, not all risks are covered by insurance, and the Company cannot provide assurance that insurance will be available consistently or on an economically feasible basis or that the amounts of insurance will be sufficient to cover losses or claims that may occur involving its assets or operations.

*Volatility of Market Price*

The market price of the Common Shares could be subject to significant fluctuation in response to variations in quarterly and yearly operating results, the success of the Company's business strategy and other factors. In addition, the stock market experiences price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of affected issuers. These fluctuations may adversely affect the market price of the Common Shares.

*Uncertain Operating Conditions*

The Company's financial results will be affected by a number of factors. The primary factors affecting the Company's operating results are changes in technology, equipment costs, labor costs, overhead costs and quantity of customer orders. In addition to this, other factors having an impact on results are competition; asset and capacity management; customer service effectiveness; and overall industry economic conditions. Variability of results can be caused by any one or any combination of these factors.

*Canadian Equipment Rentals Corp. Operations are Geographically Concentrated and Susceptible to Local Economies, Regulations and Seasonal Fluctuations*

The Company's operations are concentrated in the Province of Alberta and are susceptible to that market's local economy, regulations and seasonal fluctuations. Seasonality may temporarily affect the Company's revenues and expenses. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration, development and production companies and corresponding declines in the demand for goods and services of the Company.

*Potential Replacement of or Reduced Use of Products and Services*

Certain equipment of the Company may become obsolete or experience a decrease in demand through the introduction of competing products or new technologies that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The changes could have a material adverse effect on the Company's business, financial condition, results or operations and cash flows.

*Environmental Requirements*

The Company could be subject to legal action relating to compliance with environmental laws or regulations, and to civil claims from parties alleging some harm as a consequence of contamination, odours and other releases to the environment or other environmental matters (including the acts or omissions of its predecessors) for which the Company may be responsible.
In general, environmental, health and safety laws authorize federal, provincial or local environmental regulatory agencies (and in some cases, private citizens) to bring administrative or judicial actions for violations of environmental laws or to revoke or deny the renewal of a permit. Potential penalties for such violations may include, among other things, civil and criminal monetary penalties, imprisonment, permit suspension or revocation, and injunctive relief. These agencies may also attempt to revoke or deny renewal of the Company's permits or licenses for violations or alleged violations of environmental, health and safety laws or regulations. Under certain circumstances, citizens are also authorized to file lawsuits to compel compliance with environmental laws, regulations or permits under which CERC operates and to impose monetary penalties. Surrounding landowners or community groups may also assert claims alleging environmental damage, personal injury or property damage in connection with the Company's operations.
Potential changes in requirements may result in increased operating costs and capital expenditures for oil and gas companies, thereby delaying or decreasing the demand for the Company's services.

*Conflicts of Interest*

The directors of the Company maybe or become engaged in differenivities, both on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers may be in direct competition with the Company and conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Alberta Business Corporations Act.

*Climate Change Regulations*

Environmental advocacy groups and regulatory agencies in Canada have been focusing considerable attention on the emissions of greenhouse gases and their potential role in climate change. As a consequence, governments have begun (and are expected to continue) devising and implementing laws and regulations that require reduced, or are intended to reduce, greenhouse gas emissions. The adoption of such laws and regulations and the imposition of fees, taxes or other costs, could adversely affect The Company's collection and disposal operations

*Technology Risk*

The Company's ability to meet customer demands in respect of performance and cost will depend upon continuous improvements in services, and there can be no assurance that the Company will be successful in this regard or that the Company will have resources available to meet this continuing demand. Failure to meet this demand could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. No assurances can be given that the Company's competitors will not achieve technological advantages.

*Credit Facility Risk*

The Company's is required to comply with covenants under the Credit Agreement, as amended, establishing its credit facilities. The Company is currently not in compliance with its covenants under its credit facilities and is operating under recently amended terms and conditions which provide forbearance so as to allow the Company sufficient time to negotiate and arrange alternative financing. There can be no assurance that the Company will arrange alternative financing. In the event that the Company does not arrange an alternative financing solution, the lenders may demand repayment.

*Dilution*

The Company's may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

*Litigation*

In the normal course of the Company's operations, it may become involved in, named as party to, or be the subject of, various legal proceedings, tax proceedings, and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations.

*Breach of Confidentiality*

While discussing potential business relationships or other transactions with third parties, the Company may disclose confidential information relating to the business, operations or affairs of the Company. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put the Company at competitive risk and may cause significant damage to its business. The harm to the Company's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Company will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damages to its business that such a breach of confidentiality may cause.

*Forward-Looking Statements may Prove Inaccurate*

Undue reliance should not be placed on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this Annual Information Form under the heading "*Forward-Looking Statements*".

## ADDITIONAL INFORMATION

Information about Canadian Equipment Rentals Corp may be found on the SEDAR website at www.sedar.com on the Company's website at www.cerfcorp.com. The Company trades on the TSX Venture Exchange under the symbol CFL.