ZEDCOR ENERGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zedcor Energy Inc.

Opinion

We have audited the consolidated financial statements of Zedcor Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.

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Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Lee Bardwell.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 26, 2019

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
IN THOUSANDS OF CANADIAN DOLLARS

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	161	1,833
Restricted cash	—	600
Accounts receivable (note 21(b))	4,036	3,319
Income taxes recoverable	70	—
Prepaid expenses and deposits	350	272
	4,617	6,024
Non-current assets:		
Property and equipment (note 3)	39,075	40,038
Intangibles and goodwill (note 5)	440	6,846
Deferred income taxes (note 9)	—	7,228
	39,515	54,112
Total assets	44,132	60,136
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	1,923	1,162
Current portion of onerous lease liability (note 8)	258	242
Income taxes payable	—	217
Current debt (note 6)	16,749	19,431
	18,930	21,052
Non-current liabilities:		
Note payable (note 7)	2,716	2,467
Onerous lease liability (note 8)	529	742
Long term debt (note 6)	5,788	—
	9,033	3,209
Total liabilities	27,963	24,261
Shareholders' equity		
Share capital (note 10)	107,195	106,905
Preferred equity (note 10)	2,864	2,864
Warrants (note 11)	412	300
Contributed surplus	1,418	1,366
Deficit	(95,720)	(75,560)
	16,169	35,875
Total liabilities and shareholders' equity	44,132	60,136

Approved on behalf of the Board of Directors:

(Signed) *"Dean Swanberg"*
Dean Swanberg – Director & Interim CEO

(Signed) *"Brian McGill"*
Brian McGill – Director

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31	
	2018	**2017**
Revenues	17,452	14,636
Direct expenses		
Direct operating costs	7,217	5,597
Depreciation of equipment	5,683	5,739
	12,900	11,336
Gross margin	4,552	3,300
Operating expenses		
General and administrative (note 14)	5,919	6,279
Depreciation of other property and equipment	128	148
Loss on sale of equipment	1,329	336
Loss on derecognition	—	287
Amortization of intangible assets (note 5)	660	660
Provision for onerous lease (note 8)	—	984
Impairment of goodwill (note 4)	5,746	—
Foreign exchange loss	61	—
	13,843	8,694
Other expenses		
Finance costs (note 15)	3,711	3,581
Loss before income taxes	**(13,002)**	**(8,975)**
Income taxes (note 9)		
Current (recovery) expense	(70)	(16)
Deferred (recovery) expense	7,228	(590)
	7,158	**(606)**
Net loss and comprehensive loss from continuing operations	**(20,160)**	**(8,369)**
Net loss from discontinued operations, net of income tax (note 19)	—	(216)
Net loss and comprehensive loss	**(20,160)**	**(8,585)**
Basic and Diluted Net loss per share (note 13)		
From continuing operations	($0.39)	($0.17)
From discontinuing operations	—	($0.00)
Total Basic and Diluted Net loss per share	($0.39)	($0.17)
Weighted average number of shares outstanding		
Basic	52,252,179	48,095,115
Diluted	52,252,179	48,095,115

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
IN THOUSANDS OF CANADIAN DOLLARS

(Stated in thousands of Canadian dollars)	**Share capital**	**Preferred shares**	**Warrants**	**Contributed surplus**	**Deficit**	**Total**
Balance – December 31, 2016	105,071	2,864	—	1,160	(66,975)	42,120
Stock based compensation	—	—	—	11	—	11
Issuance of warrants	—	—	300	—	—	300
Shares issued as consideration for loan guarantee	44	—	—	—	—	44
Shares issued for partial repayment of note payable	1,800	—	—	195	—	1,995
Shares issue costs net of deferred tax benefit of $14	(10)	—	—	—	—	(10)
Net loss	—	—	—	—	(8,585)	(8,585)
Balance – December 31, 2017	106,905	2,864	300	1,366	(75,560)	35,875
Stock based compensation	—	—	—	52	—	52
Amendment of exercise price	—	—	92	—	—	92
Issuance of warrants	—	—	20	—	—	20
Shares issued as consideration for loan guarantee	108	—	—	—	—	108
Shares issued as consideration of lease termination fee	182	—	—	—	—	182
Net loss	—	—	—	—	(20,160)	(20,160)
Balance – December 31, 2018	107,195	2,864	412	1,418	(95,720)	16,169

See accompanying notes to the Consolidated Financial Statements

ZEDCOR ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
IN THOUSANDS OF CANADIAN DOLLARS

	Year ended December 31	
	2018	**2017**
Cash provided by (used in):		
Operating		
Net loss	(20,160)	(8,369)
Depreciation of property and equipment (note 3)	5,811	5,887
Loss on disposal of property and equipment (note 3)	1,329	336
Loss on derecognition (note 3)	—	287
Amortization of intangible assets (note 5)	660	660
Gain on sale of operating segment (note 19)	—	(219)
Stock based compensation	52	11
Non-cash interest expense and other financing costs	519	557
Impairment of goodwill (note 4)	5,746	—
Income taxes (paid) recovered	(230)	986
Deferred income taxes (note 9)	7,228	(590)
Cash flow from (used in) operating activities before changes in non-cash working capital	955	(454)
Changes in non-cash working capital (note 16)	(829)	206
Cash flow from (used in) continuing operations	126	(248)
Cash flow provided by discontinued operations (note 19)	—	196
Cash flow provided by (used in) operating activities	126	(52)
Investing		
Change in non-cash working capital related to investing activities (note 16)	615	(41)
Proceeds from sale of operating segment (note 19)	600	1,050
Purchase of property and equipment (note 3)	(9,206)	(411)
Proceeds from sale of property and equipment (note 3)	3,030	394
Proceeds from sale of assets held for sale	—	7,336
Cash flow (used in) provided by continuing investing activities	(4,961)	8,328
Cash flow (used in) discontinued investing activities (note 19)	—	(7)
Cash flow (used in) provided by investing activities	(4,961)	8,321
Financing		
Share issue costs	—	(14)
Repayment of syndicated credit facility (note 6)	—	(29,041)
Proceeds from short-term debt (note 6)	690	20,400
Proceeds from long-term debt (note 6)	8,324	—
Repayment of short-term debt (note 6)	(5,212)	(736)
Repayment of long-term debt (note 6)	(639)	—
Cash flow provided by (used in) continuing financing activities	3,163	(9,391)
Cash flow provided by (used in) discontinued financing activities (note 19)	—	—
Cash flow provided by (used in) finance activities	3,163	(9,391)
Net change in cash in the year	(1,672)	(1,122)
Cash, beginning of year	1,833	2,955
Cash, end of year	161	1,833

See accompanying notes to the Consolidated Financial Statements

CORPORATE INFORMATION:

Zedcor Energy Inc. (formerly Canadian Equipment Rentals Corp. and prior thereto CERF Incorporated) (the "Company") was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the "Partnership"), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005. On June 27, 2017, the Company received shareholder approval for the name change from Canadian Equipment Rentals Corp. to Zedcor Energy Inc.

The Company is presently engaged in the rental of surface equipment and accommodations, and providing security and surveillance services. The Company is listed on the TSX Venture Exchange under the symbol ZDC.

1. BASIS OF PREPARATION:

a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on March 26, 2019.

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All currency amounts have been rounded to the nearest thousand dollars, unless otherwise indicated.

The Company's consolidated financial statements are prepared under the historical cost convention, with the exception of items that IFRS requires to be measured at fair value.

b) Basis of presentation

In the presentation of financial statements, Management is required to identify where events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern.

After assessing internal budgets, plans, financing agreements and forecasts for the coming year, Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. See Note 21 (c) for significant judgements involved in reaching this conclusion.

c) Critical accounting estimates and judgments

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.

Tax interpretations, regulations, and legislation, in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred taxes are assessed 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 ("CGU") based on their ability to generate largely independent cashflows and used for impairment testing. The determination of the Company's cash-generating-units is subject to Management's judgment. The going concern assessment and the related disclosures of liquidity and related financing received subsequent to year end was a matter of significant judgement.

Recoverability of assets

The Company assesses impairment on its non-financial assets when it has determined that a potential indicator of impairment exists. The assessment of the existence of impairment indicators is based on various internal and external factors and involves management's judgement. Goodwill is tested annually for impairment or when an indicator is present. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. The key estimates the Company normally applies in determining the recoverable amount of an individual asset, CGU or group of CGUs include expected levels of activity within the oil and gas industry, future sustaining capital costs, discount rates, tax rates, and operating margins. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available. Changes to these estimates may affect the recoverable amounts of an individual asset, CGU or group of CGUs which may then require a material adjustment to their related carrying value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the year had been discontinued from the start of the comparative year (see note 19).

a) Basis of consolidation:

These financial statements include the accounts of Zedcor Energy Inc. and its wholly owned subsidiaries. Subsidiaries are those entities controlled by Zedcor Energy Inc. Control exists when Zedcor Energy Inc. has power over an investee, exposure or rights to variable returns from its involvement with its investees and the ability to use its power to affect its return from the investee. Subsidiaries are fully consolidated from the date on which control is transferred to Zedcor Energy Inc. They are deconsolidated from the date that control ceases. The following entities have been included in these consolidated financial statements:

Zedcor Energy Inc.	Parent
4-Way Equipment Rentals Corp. (discontinued)	100% owned
MCL Waste Systems & Environmental Inc. (discontinued)	100% owned
Zedcor Energy Services Corp.	100% owned

Inter-entity balances, transactions and any unrealized gains or losses arising from inter-entity transactions are eliminated in the preparation of these consolidated financial statements.

b) Business combinations:

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable net assets, including intangible assets, liabilities and contingent liabilities, are recognized at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible assets and intangible assets, the excess is recognized in the statement of income.

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

c) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

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 in the statement of income.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is provided for at the following rates and methods:

Oilfield accommodation equipment	10 years straight line
Industrial and other oilfield equipment	5% to 30% declining balance
Automotive and other equipment	20% to 30% declining balance
Furniture and office equipment	20% to 100% declining balance

Leasehold improvements are amortized over the term of the lease.

d) Goodwill and intangible assets:

Goodwill is not amortized and is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is allocated to the acquired business or CGU to which it relates.

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss, and are amortized on a straight line basis over their estimated useful lives.

Indefinite life intangible assets are carried at cost less any accumulated impairment loss.

Amortization is calculated based on 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 and indefinite life intangible assets) 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 for the current and comparative periods are as follows:

Long term contracts	12 to 60 months
Customer relationships	60 months
Non-competition agreements	48 months from the date the agreement becomes effective
Brand names and other	90 days to 60 months

e) Impairment of non-financial assets

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. 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 the statement of income. 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 (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use ("VIU"). Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. The Company bases its impairment calculation on maintaining EBITDA, which refers to net income before finance costs, income taxes, depreciation and amortization. The VIU calculation is based on a discounted cash flow model. The cash flows are derived from the Company's forecast and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Reversals of impairments are recognized when the indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or CGU for prior periods. An impairment loss in respect of goodwill is not reversed.

f) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

If a lease agreement transfers substantially all of the risks and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalized. At the inception of the lease the asset is recorded at the lower of the present value of the minimum lease payments or fair value. The asset is depreciated over the shorter period of its estimated useful life and the lease term. The corresponding lease obligation is recorded as a liability net of finance charges. Minimum lease payments made under finance leases are apportioned between finance expense and 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.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a 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 finance cost.

h) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract

and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the asset associated with that contract.

i) Revenue recognition:

Revenue from rentals, in both the Energy Services segment and Security and Surveillance segment, is recognized as the rental service is rendered, based upon agreed daily, weekly or monthly rates, and collectability is reasonably assured.

j) Equity settled transactions:

The Company has a share-based compensation plan that allows employees, officers and directors, who have been granted options, to purchase common shares at a set price over a specified time period. Option exercise prices approximate the market price of the shares on the date the options are granted. Options granted under the plan vest over three years and expire five years after the grant date.

Share based compensation expense is determined based on the estimated fair value of the options on the date they are granted. The fair value of the options granted is estimated using the Black-Scholes option pricing model. Factors used in this model include expected volatility, expected dividends and risk-free interest rates.

The compensation expense is recognized in earnings over the vesting period, with a corresponding increase in contributed surplus.

Consideration paid on the exercise of the options is recorded as an increase in shareholders' equity together with corresponding amounts previously recognized in contributed surplus. Forfeitures are estimated for at date of grant, which may result in a reduction of compensation expense in the period of the forfeiture.

k) Finance costs:

Finance costs comprise interest expense on borrowings and are recognized in earnings when incurred. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss.

l) Income taxes:

Income tax expense is comprised of current and deferred tax. Current and deferred tax is 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 recoverable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the 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 not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that will not affect accounting nor taxable profit or loss.
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be in effect when the temporary differences reverse, based on laws that have been enacted or substantially enacted at the reporting date.

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 in sufficient amount in the near term to offset the tax losses, credits and temporary differences.

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 in the near term.

m) Net income and comprehensive income per share:

Basic net income per share is determined by dividing the net income by the weighted average number of shares outstanding during the year. Diluted net income per share reflects the potential dilution that would occur if stock options and warrants were exercised. The treasury stock method is used to determine the dilutive effect of stock options and warrants. Under the treasury stock method only "in-the-money" options and warrants impact the dilution calculation.

n) Foreign currency translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency at the year end are translated into Canadian dollars at the yearend rate of exchange. Foreign currency gains and losses resulting from fluctuations in exchange rates between the transaction dates and reporting dates are included in income in the period in which they occur. The Canadian dollar is the Company's functional currency.

o) Financial Instruments:

Non-derivative financial assets

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets (including assets designated at fair value through net income or loss) 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 when 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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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 instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Other assets	Fair value through profit and loss	Fair value through profit and loss

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

The Company initially recognizes trade and other receivable on the date that they originate. Impairment of trade and other receivables is recognized in selling, general and administration expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Other assets are measured at fair value. Gains and losses relating to the change in fair value are recognized entirely through profit or loss.

Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they originate. All other financial liabilities 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 liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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 liabilities:

Financial instrument	Initial measurement	Subsequent measurement
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Current debt	Amortized cost	Amortized cost
Long term debt	Amortized cost	Amortized cost

Such 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 using the effective interest method. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

Financial derivatives not using hedge accounting

The Company holds derivative financial instruments at times to hedge its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are recognized at fair value and changes therein are accounted for in profit or loss.

p) Discontinued operations:

A discontinued operation is a component of the Company that has either been disposed of or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Assets, liabilities, comprehensive income, and cash flows relating to a discontinued operation of the Corporation are segregated and reported separately from the continuing operations of the Corporation. The comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

q) Segment reporting:

The Company's operating segments are organized based on the operating structure of the Company's business and are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CEO has authority for resource allocation and assessment of the Company's performance and is therefore the CODM.

r) Changes in significant accounting policies:

- *Revenue from Contracts with Customers (IFRS 15)*

  The Company adopted IFRS 15, which replaced IAS 18 – Revenue, IAS 11 – Construction Contracts and related interpretations, in its financial statements beginning on January 1, 2018.

  Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

  The Company recognizes revenue when it transfers control of the product or services to a customer. Rental revenue, in both the Energy Services segment and Security and Surveillance segment, is recognized as the rental service is rendered, based on agreed daily, weekly or monthly rates, and collectability is reasonably assured. The Company's revenue transactions do not contain financing components and payments are typically due within 30 days of revenue recognition.

  The adoption of IFRS 15 did not have a material impact on the Company's financial statements.

- *Financial Instruments (IFRS 9)*

  The Company adopted IFRS 9, which replaced IAS 39 – Financial Instruments: Recognition and Measurement, in its financial statements beginning January 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, however it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9 there are three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVRPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39

The adoption of IFRS 9 did not have a material impact on the Company's financial statements.

s) New accounting standards not yet adopted:

At the date of these financial statements, the following accounting standards and interpretations were issued but not effective until a future date:

- *Leases (IFRS 16)*

The Company is required to adopt IFRS 16 Leases beginning on January 1, 2019. The Company has assessed the estimated impact of IFRS 16 on its financial statements as described below. The actual impacts of adopting IFRS 16 on January 1, 2019 may change as new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-statement of financial position lease accounting model for leases. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current standard where lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Company is a lessee

The Company will recognize new assets and liabilities for its operating leases of facilities and vehicles. The nature of expenses related to those leases will now change because the Company will recognize a depreciation charge for the right-of-use assets and interest expense on lease liabilities. Previously, the Company recognized operating leases expense on a straight-line basis over the term of the lease.

The Company will no longer recognize provisions for operating leases that it assess to be onerous as described in note 8. Instead, the Company will include the payments due under the lease in its lease liability.

Based on the information currently available, the Company estimates that it will recognize additional lease liabilities of approximately $12.1 million as at January 1, 2019. The Company does not expect the adoption of IFRS 16 to impact its ability to comply with the ratio covenants as described in note 6.

ii. **Leases in which the Company is a lessor**

The Company will reassess the classification of sub-leases in which the Company is a lessor. Based on the information currently available, the Company expects that it will reclassify one sub-lease as a finance lease, resulting in a recognition of a finance lease receivable of approximately $1.4 million as at January 1, 2019.

No significant impact is expected for other leases in which the Company is a lessor.

iii. **Transition**

The Company plans to apply IFRS 16 on January 1, 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Company plans to apply the following practical expedients:

- Grandfather the definition of a lease on transition and will therefore apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Rely on assessment of whether a lease is onerous by applying IAS 37 Provision, Contingent Liabilities and Contingent Assets immediately before January 1, 2019. Therefore the right of use asset at the date of initial application is adjusted by the provision for onerous lease recognized on the statement of financial position immediately before January 1, 2019.
- Leases whose term ends within twelve months of the date of application with be considered a short term lease and treated as an operating lease.

3. PROPERTY AND EQUIPMENT:

Cost	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2016	60,301	557	780	109	61,747
Additions	379	2	30	—	411
Disposals	(909)	(105)	(2)	—	(1,016)
Derecognition	(308)	—	—	—	(308)
At December 31, 2017	59,463	454	808	109	60,834
Additions	8,993	—	192	21	9,206
Disposals	(7,023)	(87)	—	—	(7,110)

At December 31, 2018	61,433	367	1,000	130	62,930

Accumulated depreciation	**Rental equipment**	**Automotive and other equipment**	**Office furniture & equipment**	**Leasehold improvements**	**Total**
At December 31, 2016	14,646	156	358	56	15,216
Depreciation	5,618	121	129	19	5,887
Elimination on disposal	(243)	(42)	(1)	—	(286)
Derecognition	(21)	—	—	—	(21)
At December 31, 2017	20,000	235	486	75	20,796
Depreciation	5,590	69	125	27	5,811
Elimination on disposal	(2,708)	(44)	—	—	(2,752)
At December 31, 2018	22,882	260	611	102	23,855

Net Book Value	**Rental equipment**	**Automotive and other equipment**	**Office furniture & equipment**	**Leasehold improvements**	**Total**
At December 31, 2017	39,463	219	322	34	40,038
At December 31, 2018	38,551	107	389	28	39,075

During the year ended December 31, 2018, the Company sold assets with a net book value of $4,359 for proceeds of $3,030, resulting in a loss of $1,329 (2017: loss of $336).

4. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS:

The Company reviews the carrying value of its long-lived assets and cash generating units at each reporting date to determine whether there is any indication of impairment.

At December 31, 2018, the Company performed an impairment test for goodwill and property and equipment on the Energy Services CGU. The Company determined the recoverable amount on the basis of value in use ("VIU"). The VIU was determined by discounting the future cash flows to be generated from the operations of the cash generating unit to which goodwill has been allocated, using a 5-year model, a post-tax discount rate of 15% (pre-tax discount rate of 20%) and a terminal value growth of 2.0%. Budgeted EBITDA margins for the Energy Services CGU were forecasted using historical margins and taking into consideration known or pending factors. EBITDA is a non-IFRS measure which is defined as earnings before interest, taxes, depreciation and amortization.

Revenue, EBITDA and cash flow projection assumptions were based on a combination of past results, current corporate structure and expectations of future growth. Cash flow projections for 2019-2023 assume a gradual recovery to historical activity levels. Impairment losses are allocated first to reduce the carrying cost of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU.

As a result of the impairment test performed, it was determined that the carrying value of the Energy Services CGU exceeded its estimated recoverable amount. Accordingly, the Company has recorded goodwill impairment of $5,746 for the year ended December 31, 2018.

5. GOODWILL AND INTANGIBLES

Cost	Goodwill	Customer Relationships	Total
At December 31, 2016	**5,746**	**1,760**	**7,506**
Amortization	—	(660)	(660)
At December 31, 2017	**5,746**	**1,100**	**6,846**
Amortization	—	(660)	(660)
Impairment	(5,746)	—	(5,746)
At December 31, 2018	**—**	**440**	**440**

For the purposes of impairment testing, goodwill and intangible assets are allocated to the Company's cash generating units.

6. CREDIT FACILITIES:

	Interest rate	Final maturity	Facility maximum	Outstanding as at December 31, 2018	Outstanding as at December 31, 2017
Loan and security facility	12.75%	2019	15,900	14,162	19,431
Operating loan facility	7.25%	revolving	3,000	690	—
Term loan facility	7.25%	2020	2,500	2,500	—
Equipment term loan facility	6.10%	2021	8,000	5,185	—
				22,537	19,431
Current portion				(16,749)	(19,431)
Long term debt				5,788	—

Loan and security facility:

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 was used to repay the Syndicated Credit Facility, bore interest at a rate of 12.75% and had 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 was to be serviced by six months of interest only payments, followed by six months of blended principal and interest payments. The Loan and Security Agreement did not require quantitative financial covenants, but imposes restrictions on the Loan's collateral, being the property and equipment of the Company.

On April 21, 2017, the Company issued the lender 3,651,501 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants expire on July 21, 2019. The warrants fair value of $300 was recorded as a transaction cost of the loan and is being expensed over the term of the loan. (see note 11)

On March 28, 2018, the Company renewed the Loan and Security agreement in the amount of $17.5 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bore interest at 12.75% and was serviced by six months of interest only payments, followed by six months of principal and interest payments in the event that it was renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.27 per share from $0.25 per share and extended the expiry date to July 21, 2020. The facility no longer has any shareholder guarantees pledged as security, and all covenants and collateral remain the same.

On September 28, 2018, the Company renewed the Loan and Security agreement in the amount of $15.9 million for an additional six months with an option to renew for an additional six months at the satisfaction of the lender. The renewed Loan and Security agreement bears interest at 12.75% and is serviced by six months of interest only payments, followed by six months of interest only payments in the event that it is renewed. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.20 per share from $0.27 per share and extended the expiry date to January 21, 2021. All covenants and collateral remain the same. (see note 11)

On October 1, 2018, the Company issued the lender an additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.20 per warrant. The warrants expire on January 21, 2021. (see note 11)

On March 25, 2019, the Company renewed the Loan and Security agreement in the amount of $14.3 million for an additional 12 months with an option to renewal for an additional 12 months at the satisfaction of the lender. The renewed loan and security agreement bears interest at 12.75% and is serviced by 12 months of interest only payments. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.145 per share from $0.20 per share and extended the expiry date to January 21, 2022. All covenants and collateral remain the same.

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.145 per warrant. The warrants expire on January 21, 2022.

Operating loan, term loan and equipment term loan facility:

On May 10, 2017, the Company signed a $1 million operating loan agreement bearing interest at a rate of prime plus 3.3% and secured by the Company's accounts receivables and restricted cash. The operating loan facility required that the Company's current ratio does not fall below 1.50:1.00 and effective September 30, 2017, the debt service coverage ratio not be less than 1.50:1.00, calculated in accordance with the formula set forth in the agreement.

On March 28, 2018, the Company signed a $13.5 million credit facility, comprised of a $3 million operating loan facility, which replaces the $1 million operating loan facility, a $2.5 million non-revolving term loan facility,

which was used to pay out the guarantee from the Loan and Security agreement, and an $8 million equipment finance term loan facility. The operating loan facility is payable on demand by the lender, bears interest at a rate of prime plus 3.3% and is secured by the Company's accounts receivable. The term facility matures in two years, bears interest at a rate of prime plus 3.3% and is secured by a shareholder guarantee. The shareholder guarantee bears interest at a rate of 5.0% per annum and is paid monthly through the issuance of shares. The equipment finance loan is amortized over 36 to 60 months, bears interest at a rate of 6.1% to 6.2% and is repayable in equal monthly installments of principal and interest over the term. The equipment finance loan will be used to finance 75% of the cost of new equipment purchased. The credit facility requires that the Company's current ratio does not fall below 1.50:1.00, the debt service coverage ratio does not fall below 1.25:1.00 and the share value of the shares pledged under the shareholder guarantee not be less than 1.25 times the value of the outstanding term facility.

As at December 31, 2018, the Company's current ratio, as defined to exclude the current portion of debt, was 2.40:1.00, the debt service coverage ratio was 1.33:1.00 and the share value of the shares pledged under the shareholder guarantee were greater than 1.25 times the value of the outstanding term facility.

7. NOTE PAYABLE

On February 2, 2016, the Company issued a $5,000,000 Canadian dollar vendor take-back note as part of an acquisition. The vendor take-back note matures five years from the issue date at its nominal value and bears interest at five per cent per annum, accruing daily from the issue date. Accrued and unpaid interest is due upon maturity. The vendor take-back note is unsecured and subordinated to the Credit Facilities and interest payments are subject to certain restrictions in the Credit Facility.

On April 27, 2017, the Company repaid $2.5 million of the principal amount of the vendor take-back note by issuing 10,000,000 Common Shares of the Company to the note holder, representing a price of $0.25 per share. The fair value of the shares on the date of repayment was $0.18 per share.

As at December 31, 2018, the note payable had a carrying value of $2,716.

Balance, December 31, 2016	**$ 4,149**
Principal settlement	(1,995)
Interest payable	166
Accretion of note payable discount	147
Balance, December 31, 2017	**$ 2,467**
Interest payable	125
Accretion of note payable discount	124
Balance, December 31, 2018	**$ 2,716**

8. ONEROUS LEASE LIABILITY

Onerous lease liability relates to a provision for a non-cancellable facility lease contract that expires on June 30, 2027. Due to the sale of the General Rentals segment (see note 19(b)) on February 9, 2017 the Company no longer uses the facility. The facility has been subleased at rates lower than those contracted under the head lease. The obligation for the discounted future payments, net of expected rental income has been provided for. The total onerous lease liability as at December 31, 2018 was $787 (December 31, 2017: $984).

9. INCOME TAXES:

The major components of income tax expense are as follows:

	December 31, 2018	December 31, 2017
Current income tax	(70)	(16)
Deferred tax	7,228	(590)
Provision for income taxes	7,158	(606)

The following summarizes income taxes recognized in equity:

	December 31, 2018	December 31, 2017
Share issue costs	—	4

Deferred tax assets and liabilities are attributable to the following temporary differences:

	Excess book value	Intangibles	Tax loss carry forwards	Share issue costs & warrants	Net deferred tax asset (liability)
As at December 31, 2016	1,106	197	5,215	99	6,617
Recognized in profit or loss	(1,292)	(494)	2,431	(34)	611
As at December 31, 2017	(186)	(297)	7,646	65	7,228
Recognized in profit or loss	186	178	(7,513)	(79)	(7,228)
As at December 31, 2018	—	(119)	133	(14)	—

Reconciliation of effective tax rate:

	December 31, 2018	December 31, 2017
Net Loss before income tax	(13,002)	(8,975)
Statutory Tax rate	27%	27%
Expected tax	(3,511)	(2,423)
Non-deductible expenses	(4)	271
Change in tax rate	—	1
Adjustment for prior year	—	7
Goodwill impairment	1,551	—
Unrecognized capital and non-capital losses	9,122	1,538
Tax expense (recovery)	7,158	(606)

As at December 31, 2018 the Company had non-capital loss carry forwards of approximately $33,927 (2017 - $34,781) which are available to reduce future taxable income. These losses begin to expire in 2030. The Company will recognize a deferred tax asset to the extent that it is probable future taxable profits will be available in the near term to offset the tax losses, credits and temporary differences. Also included in the December 31, 2018 tax pools are net capital losses of $2,196 (2017 - $2,196), which are available to reduce future capital gains. However, these loses are unrecognized as a deferred income tax asset at December 31, 2018, as management does not believe sufficient future net capital gains will be generated.

10. SHARE CAPITAL:

Authorized:
The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

Common shares issued and fully paid:	Number of shares	$
Balance, December 31, 2016	**41,199,931**	**105,071**
Issued for partial repayment of note payable	10,000,000	1,800
Issued as consideration for loan guarantee	248,777	44
Share issue costs, net of deferred tax benefit of $4	—	(10)
Balance, December 31, 2017	**51,448,708**	**106,905**
Issued as consideration of lease termination fee	776,334	182
Issued as consideration for loan guarantee	656,427	108
Balance, December 31, 2018	**52,881,469**	**107,195**

Preferred shares issued:	Number of shares	$
Balance, December 31, 2016, December 31, 2017 & December 31, 2018	**4,400,000**	**2,864**

On February 2, 2016, the Company issued 4,400,000 preferred shares at a stated value of $0.70 per share as part of an acquisition. The fair value of the preferred shares at the acquisition date was estimated to be $2,864. The preferred shares valuation was determined using a Monte Carlo simulation and Longstaff-Schwartz algorithm. The assumptions used in the valuation include the historical stock price of the Company, the historical volatility of the Company stock price and a Company credit rating of B-.

The Preferred Shares are non-voting and non-transferrable, have a stated value of $0.70 per share and a term of five years. The Preferred Shares have a cumulative dividend of 5% of the stated value commencing on January 31, 2017 until January 31, 2018 and a 10% cumulative dividend from January 31, 2018 thereafter, with dividend payments being subject to certain restrictions in the Company's existing secured credit facilities, and at the discretion of the Board of Directors. The dividend can be settled at the discretion of the Company in either cash or through the issuance of Common Shares based on the conversion price of $0.70.

After January 31, 2019, the Preferred Shares may be converted by the holder thereof into the Company's Common Shares at a conversion price of $0.70 per share, subject to the right of Company to redeem the

Preferred Shares prior to such conversion for a cash amount per share equal to the lesser of: (i) $2.00; and (ii) the current market price of the Common Shares.

Zedcor Energy Inc. shall have the right to redeem the Preferred Shares at any time if the current market price of the Common Shares exceeds $2.00 by either, at the Company's sole option, (i) payment of cash of $2.00 per Preferred Share; or (ii) through the issuance of 4,400,000 Common Shares, subject to certain adjustments.

The Preferred Shares may be redeemed at the end of the term, at the Company's sole option, for either (i) a cash amount per share equal to the lesser of $2.00 and the current market price; or (ii) 4,400,000 Common Shares, subject to certain adjustments.

11. WARRANTS:

Changes in the outstanding number, weighted average exercise price and movements in warrants are as follows:

Warrants issued:	Number of warrants	$
Balance, December 31, 2016	—	—
Issued as consideration in financing arrangement	3,651,501	300
Balance, December 31, 2017	**3,651,501**	**300**
Amendment of exercise price – March 28, 2018	—	11
Amendment of exercise price – September 28, 2018	—	81
Additional warrants issued per financing agreement – October 1, 2018	248,209	20
Balance, December 31, 2018	**3,899,710**	**412**

On April 27, 2017, the Company issued 3,651,501 share purchase warrants (see note 6). Each warrant can be used to acquire one common share in the Company at an exercise price of $0.25 per warrant. The warrants expire on July 21, 2019.

On March 28, 2018, the Company entered into a Warrant Amendment Agreement which amended the exercise price of the warrants to $0.27 per share and extended the expiry date to July 21, 2020.

On September 28, 2018, the Company entered into a Second Warrant Amendment Agreement which amended the exercise price of the warrants to $0.20 per share and extended the expiry date to January 21, 2021.

On October 1, 2018, the Company issued the lender and additional 248,209 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.20 per warrant. The warrants expire on January 21, 2021.

12. STOCK OPTIONS:

Changes in outstanding and exercisable employee options are as follows:

	Number of options	Vested	Exercise price	Remaining contractual life in years	Weighted average exercise price
Options as at December 31, 2016	**2,128,500**	**272,164**	—	**4.00**	**0.76**

Options forfeited	(1,222,000)	(392,164)	1.72	—	—
Options vested	—	476,497	0.52	—	—
Options granted May 18, 2017	2,000,000	—	0.25	4.38	0.25
Options as at December 31, 2017	**2,906,500**	**356,497**	—	**3.97**	**0.35**
Options forfeited	(2,050,000)	(499,998)	0.33	—	—
Options expired	(6,500)	(6,500)	3.00	—	—
Options vested	—	874,996	0.32	—	—
Options granted January 15, 2018	575,000	—	0.25	4.04	0.25
Options granted April 3, 2018	925,000	—	0.34	4.25	0.34
Options granted June 19, 2018	225,000	—	0.25	4.46	0.25
Options granted August 16, 2018	75,000	—	0.25	—	0.25
Options granted November 15, 2018	250,000	—	0.25	4.87	0.25
Options as at December 31, 2018	**2,900,000**	**724,995**	—	**3.61**	**0.31**

The Company estimated the fair value of the 2,050,000 employee stock options issued using the Black-Scholes method of valuation. The options granted on August 16, 2018 were forfeited during the year. The Black-Scholes estimate of fair value used the following assumptions:

Issue date	**Jan. 15, 2018**	**Apr. 3, 2018**	**Jun. 19, 2018**	**Aug. 16, 2018**	**Nov. 15, 2018**
Expected annual dividend	$0.00	$0.00	$0.00	$0.00	$0.00
Expected volatility	68.8%	68.0%	71.1%	71.2%	73.7%
Risk-free interest rate	1.80%	1.90%	1.90%	2.09%	2.25%
Expected life of options	3 years	3 years	3 years	3 years	3 years

During the year ended December 31, 2018, $52 of stock based compensation related to these stock options was recorded in general and administrative expenses (2017 - $11). At December 31, 2018, the weighted average price of exercisable options was $0.34.

13. PER SHARE AMOUNTS:

Net income per share has been calculated based on the weighted average number of shares outstanding during the years ended December 31, 2018 and 2017. The basic weighted average number of shares outstanding for the years then ended was 52,252,179 and 48,095,115 respectively.

The diluted weighted average number of shares was 52,252,179 for 2018 and 48,095,115 for 2017. The diluted weighted average reflects the dilutive effect of “in-the-money” options outstanding. As at December 31, 2018 and 2017 no vested options or warrants were “in-the-money”.

14. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses are comprised of the following:

	December 31, 2018	December 31, 2017
Administrative salaries and office costs	4,926	4,432
Professional and consulting fees	441	1,474
Advertising, promotion, and investor relations	168	177
Computer and technology related expenses	242	212
Bad debt expenses	142	(16)
	5,919	6,279

For the year ended December 31, 2018 severance costs of $343 (2017 - $122) were include in administrative salaries and office costs.

15. FINANCE COSTS:

Finance costs are comprised of the following:

	December 31, 2018	December 31, 2017
Bank charges and interest	23	14
Interest on debt	3,487	3,187
Interest on note payable	249	315
Other interest (income) expense	(48)	—
Loan syndication and amendment fees	—	65
	3,711	3,581

16. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities

	December 31, 2018	December 31, 2017
Accounts receivable	(717)	(419)
Prepaid expenses and deposits	(185)	231
Accounts payable and accrued liabilities	327	(571)
Onerous lease	(197)	984
Income taxes payable	(57)	(19)
	(829)	206
Change in accounts payable related to investing activities	615	(41)
Total change in non-cash working capital	(214)	165
Supplementary information:		
Interest paid	3,253	3,024
Taxes (recovered) paid	230	(986)

17. RELATED PARTY TRANSACTIONS:

a) Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to executive officers. The Company has no retirement or post-employment benefits available to its directors and executive officers.

The remuneration of key management personnel and directors during the year ended December 31 was:

	2018	2017
Short term employment salary and benefits	625	780
Termination benefits	276	—

b) Transactions with key management personnel and directors:

On February 2, 2016 the Company issued a vendor take back note as part of an acquisition. During 2017, the holder of the vendor take back note was elected as a director of the Company. As at December 31, 2018, the note payable had a carrying value of $2,716. (see note 7)

On April 27, 2017, a director of the Company provided a $2,500 guarantee for the Loan and Security Agreement the Company entered into on April 21, 2017. The Company paid interest of 3.0% per annum, through the issuance of shares on the value of the guarantee that remained outstanding. On March 28, 2018, the shareholder guarantee was released from the Loan and Security Agreement and secured against the term loan. (see note 6) The Company pays interest of 5.0% per annum, through the issuance of shares on the value of the guarantee that remains outstanding. As at December 31, 2018 the amount outstanding on the guarantee is $2,500.

During the year ended December 31, 2018, the Company paid rent for two buildings of $310 to a company owned by a director of the Company.

During the year ended December 31, 2018, the Company sold assets of $50 to a company that is owned by a director of the Company.

c) Other:

During the year ended December 31, 2018, the Company paid $141 (2017 - $27) in wages to close family members of directors and executive officers.

These related party transactions are in the normal course of business and have been recorded at the exchange amount. At December 31, 2018 no amount from related parties was unpaid (2017 - NIL).

18. OPERATING SEGMENTS:

The Company structured its 2018 operations in two operating and reportable segments: (i) Energy Services and (ii) Security & Surveillance, based on the way that management organizes the Company's businesses for making operating decisions and assessing performance.

Information regarding results of the segments are included below. Performance is measured based on segment earnings, which is earnings before income tax, depreciation, amortization and finance costs, as included in internal management reports.

The following is a summary of the Company's results by segment for the twelve months ended December 31, 2018 and 2017:

Twelve months ended December 31, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	13,865	3,587	—	17,452
Segment earnings	5,522	1,075	(2,281)	4,316
Depreciation of property and equipment	5,251	509	51	5,811
Loss on sale of equipment	1,339	—	(10)	1,329
Impairment of goodwill	5,746	—	—	5,746
Amortization of intangible assets	660	—	—	660
Additions to property and equipment	4,759	4,361	86	9,206

Twelve months ended December 31, 2017				
	Energy Services	Security & Surveillance	Corporate	Total
Total segment revenue	14,636	—	—	14,636
Segment earnings	6,157	—	(3,397)	2,760
Depreciation of property and equipment	5,819	—	68	5,887
Loss on sale of equipment	340	—	(4)	336
Amortization of intangible assets	660	—	—	660
Additions to property and equipment	379	—	32	411

Twelve months ended December 31, 2018				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	35,067	3,852	156	39,075
Intangibles and goodwill	440	—	—	440

Twelve months ended December 31, 2017				
	Energy Services	Security & Surveillance	Corporate	Total
Property and equipment	39,876	—	162	40,038
Intangibles and goodwill	6,846	—	—	6,846

A reconciliation of segment earnings to loss before taxes is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Segment earnings	4,316	2,760
Deduct:		
Finance costs	3,711	3,581
Amortization of intangibles	660	660
Depreciation of equipment	5,811	5,887
Loss on sale of equipment	1,329	336
Loss on derecognition	—	287
Impairment of goodwill	5,746	—
Foreign exchange loss	61	—
Provision for onerous lease	—	984
Loss before taxes	(13,002)	(8,975)

19. DISCONTINUED OPERATIONS:

a) MCL Waste Systems & Environmental Inc.

On November 30, 2016, the Company sold its Waste Management operating segment and wholly owned subsidiary, MCL Waste Systems & Environmental Inc. for $12 million by executing a definitive share purchase agreement. Management sold this segment in order to place greater focus on its core rentals division while concurrently reducing balance sheet leverage. The comparative consolidated statements of income or loss have been restated to show the discontinued operation separately from continuing operations.

(Stated in thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Revenues	—	—
Direct expenses		
Direct operating costs	—	—
Gross margin	—	—
Operating expenses		
General and administrative	—	—
Depreciation of other property and equipment	—	—
	—	—
Income (loss) from operating actives	—	—
Deferred (recovery) expense	—	—
Net income (loss) from operating activities, net of tax	—	—
Gain on sale of discontinued operation	—	(124)

Net income from discontinued operations	—	**124**
Net income per share from discontinued operation		
Basic and diluted	—	0.00

Cash flows from (used in) discontinued operations

	December 31, 2018	December 31, 2017
Net cash from operating activities	—	124
Net cash (used in) investing activities	—	—
Net cash (used in) financing activities	—	—
Net cash flows for the year	—	**124**

On July 28, 2017, the final working capital value was settled resulting in a gain of $124.

b) 4-Way Equipment Rentals Corp.

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. The transaction closed February 9, 2017. The sale aligned the Company with its objectives of placing greater focus on its core rental division while reducing balance sheet leverage. The comparative consolidated statements of income or loss have been restated to show the discontinued operation separately from continuing operations.

(Stated in thousands of Canadian dollars)	December 31, 2018	December 31, 2017
Revenues	—	**662**
Direct expenses		
Direct operating costs	—	426
Cost of sales of equipment, fuel and parts	—	92
	—	518
Gross margin	—	**144**
Operating expenses		
General and administrative	—	245
Depreciation of other property and equipment	—	—
	—	245
Finance costs	—	115
Loss before income taxes	—	**(216)**
Current (recovery) expense	—	236
Deferred (recovery) expense	—	(17)

Net loss from operating activities, net of tax	**—**	**(435)**
Gain on sale of discontinued operations	—	(95)
Net loss from discontinued operations	**—**	**(340)**
Net loss per share from discontinued operation		
Basic and diluted	—	(0.01)

Cash flows from (used in) discontinued operations

	December 31, 2018	December 31, 2017
Net cash from operating activities	—	72
Net cash used in investing activities	—	(7)
Net cash from (used in) financing activities	—	—
Net cash flows for the year	—	**65**

20. CAPITAL MANAGEMENT:

The Company's objective when managing capital is to prudently exercise financial discipline and to deliver positive returns. The Company's capital management strategy remained unchanged during the year ended December 31, 2018.

The Company monitors capital based on the ratio of debt to Adjusted EBITDA (Adjusted EBITDA is a non-GAAP measure and defined as net income before interest, taxes, depreciation, amortization, gain or loss on disposal of property and equipment and non-cash share based compensation plus non-recurring charges such as acquisition expenses, refinancing charges and severance payments). This ratio is calculated as debt, defined as total liabilities excluding trade payables and other accrued current liabilities incurred in the ordinary course of business, and future income taxes divided by Adjusted EBITDA. The Company's strategy is to maintain the current ratio and debt service coverage ratios within the parameters as set out in the Company's current Operating Loan Facility (note 6).

The Company considers its capital structure to include shareholders' equity, credit facilities, and working capital. In order to maintain or adjust its capital structure, the Company may from time to time, issue shares and adjust its capital spending to manage the level of its short-term borrowings, or may revise the terms of its credit facilities to support future growth initiatives.

21. FINANCIAL INSTRUMENTS:

a) Fair value:

The fair value of the Company's financial instruments consisting of cash, accounts receivable, accounts payable and accrued liabilities, current debt, note payable and long term debt approximate their carrying value as at December 31, 2018 and 2017, due to their short-term maturities or floating interest rates.

b) 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 with no significant exposure to any individual customer, other than one large pipeline company with an accounts receivable balance in excess of 19% of the total 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.

The allowance for doubtful accounts in respect of trade receivables is used to record impairment losses unless the Company is satisfied that a recovery of the amount owing is extremely remote, at which point the amounts are considered irrecoverable and are written off against the trade receivables directly.

Aging of accounts receivable is as follows:

	December 31, 2018	December 31, 2017
Trade receivables, gross:		
Outstanding 1 - 30 days	1,683	1,566
Outstanding 30 – 60 days	1,168	809
Outstanding over 60 days	371	582
	3,222	2,957
Allowance for doubtful accounts	(18)	(21)
Trade receivables, net	3,204	2,936
Sales tax and other receivables	832	383
Accounts receivable	4,036	3,319

The movement in the allowance for doubtful accounts in respect of trade receivables during the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Balance as at January 1	21	31
Decrease in allowance of trade receivables	(3)	(10)
Balance as at December 31	18	21

Based on historical default rates, the Company believes that no additional impairment allowance is necessary in respect of trade receivables.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

At December 31, 2018, the Company had negative working capital of $(14,252), factoring out the $16,749 loan obligation working capital would be $2,497. The Company believes that future cash flows from operations will be sufficient to meet its obligations as they arise. (see Note 6 and Note 23)

The following table shows the undiscounted contractual maturities of the Company's financial liabilities and financial lease obligation as at December 31, 2018:

	1 Year	2-3 years	4-5 years	Thereafter	Total	Carrying value
Accounts payable and accrued liabilities	1,923	—	—	—	1,923	1,923
Short-term debt	17,039	—	—	—	17,039	16,749
Long-term debt	—	5,788	—	—	5,788	5,788
Note Payable	—	3,281	—	—	3,281	2,716
Onerous and operating leases	1,652	2,556	1,878	2,438	8,524	787
Total	20,614	11,625	1,878	2,438	36,555	27,963

The Company anticipates that future capital resources, renewed financing arrangements and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2019. This expectation could be adversely affected by a material negative change or a longer than anticipated downturn in the oilfield service industry. If available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, asset dispositions, or pursuing other corporate strategic alternatives.

d) Market risk

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.

At December 31, 2018, 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 $18.

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, 2018 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.

22. LEASE COMMITMENTS:

Minimum rental commitments for operating leases for premises and equipment over the next five years are as follows:

2019	1,652
2020	1,420

2021	1,136
2022	988
2023	890
Thereafter	2,438

Included in the above lease commitments are the net lease payments classified under the onerous lease obligation. (see note 8)

23. SUBSEQUENT EVENTS:

On March 25, 2019, the Company renewed the Loan and Security agreement in the amount of $14.3 million for an additional 12 months with an option to renewal for an additional 12 months at the satisfaction of the lender. The renewed loan and security agreement bears interest at 12.75% and is serviced by 12 months of interest only payments. The Company also entered into a Warrant Amendment Agreement which amended the exercise price of the previously issued warrants to $0.145 per share from $0.20 per share and extended the expiry date to January 21, 2022. All covenants and collateral remain the same.

On March 25, 2019, the Company issued the lender an additional 2,068 share purchase warrants. Each warrant entitles the lender to acquire one common share in the Company at an exercise price of $0.145 per warrant. The warrants expire on January 21, 2022.