ESI ENERGY SERVICES INC.

Annual Report 2016

Management's Discussion & Analysis

ESI Energy Services Inc.

TWELVE MONTHS ENDED DECEMBER 31, 2016 and 2015

This management's discussion and analysis (MD&A) is current to April 26, 2017 and is management's assessment of the operations and the financial results together with future prospects of ESI Energy Services Inc. and its subsidiaries ("ESI" or the "Company"). This MD&A should be read in conjunction with our audited consolidated financial statements and related notes for the years ended December 31, 2016 and 2015, prepared in accordance with International Financial Reporting Standards. All figures are in Canadian dollars unless stated otherwise. Additional information relevant to ESI's activities, including ESI's news releases, can be found on SEDAR at www.sedar.com.

Description of business

ESI Energy Services Inc. ("ESI" or the "Company") was incorporated as a numbered company under the Business Corporations Act (Alberta) ("ABCA") on February 22, 2001. The Company's Articles of Incorporation were amended and the Company changed its name to "ESI Energy Services Inc." on September 12, 2001. These consolidated financial statements comprise ESI and its subsidiaries, all of which are wholly owned (together referred to as the "Company").

On September 29, 2016, the Company entered into an arrangement agreement with Exploratus Ltd. ("Exploratus") and 1994687 Alberta Ltd. ("Spinco"). The Arrangement was approved by written resolution of the ESI Shareholders on October 25, 2016 and the Exploratus Shareholders at a shareholders' meeting held on November 21, 2016. The Arrangement resulted in New ESI having a public shareholder base to meet one of the Canadian Securities Exchange ("CSE") listing conditions. ESI filed a Non-offering Long Form Prospectus with the Alberta Securities Commission on November 28, 2016. The Company's common shares were listed for trading on the CSE. The shares trade under the symbol OPI.

The Company currently operates in most provinces in western Canada as well as in the United States of America. The Company, through its operating subsidiaries, ESI Pipeline Services Ltd. ("ESIPSL") and Ozzie's Pipeline Padder, Inc. ("OPI"), supplies (rentals and sales) backfill separation machines ("Padding Machines") to mainline pipeline contractors, and renewables and utility construction contractors, as well as oilfield pipeline and construction contractors.

The Company maintains its registered corporate and head office at suite 500, 727 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 0Z5.

Financial Highlights

$Thousands, except per share amounts

	Year ended December 31		
	2016	**2015**	**2014**
Revenue	8,101	11,179	9,293
Net income (loss)	(5,124)	(2,117)	(8,568)
Earnings (loss) per share – basic	(0.11)	(0.05)	(0.26)
Earnings (loss) per share – diluted	(0.11)	(0.05)	(0.26)
Long-term debt	3,248	1,120	1,070
Total assets	38,297	45,396	48,512

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Revenue	2,242	2,626	(384)	(15)	8,101	11,179	(3,078)	(28)
Net income (loss)	678	(1,281)	1,959	(153)	(5,124)	(2,117)	(3,007)	142
Earnings (loss) per share – basic	0.02	(0.04)	0.06	(150)	(0.11)	(0.05)	(0.06)	120
Earnings (loss) per share – diluted	0.02	(0.04)	0.06	(150)	(0.11)	(0.05)	(0.06)	120
EBITDA[1]	628	894	(266)	(30)	631	3,433	(2,802)	(82)
Funds flow [(1)]	613	610	3	1	529	2,610	(2,081)	(79)
Cash flow from operating activities	7	2,105	(1,916)	(100)	1,659	1,222	437	36
Capital spending								
Additions	(169)	(600)	429	(72)	(2,174)	(4,663)	2,489	(53)
Proceeds on sale	496	75	421	561	941	2,655	(1,714)	(65)

(1) EBITDA and Funds flow are non-GAAP measures. See commentary in "Non-Standard and Non- GAAP Items".

Operating Highlights

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
FLEET [(1)]	**Months**	**Months**			**Months**	**Months**		
Large padders	12	15	(3)	(20)	50	75	(25)	(33)
OPP – 300	6	8	(2)	(25)	33	29	4	14
OPP – 200	6	7	(1)	(14)	17	46	(29)	(63)
Mini-padders	32	41	(9)	(22)	120	152	(32)	(21)
Pipe layers	-	13	(13)	(100)	13	62	(49)	(79)
Oilfield services equipment	10	13	(3)	(23)	45	54	(9)	(17)
UTILIZATION	**%**	**%**			**%**	**%**		
Large padders	13	16	(3)	(19)	14	20	(6)	(30)
OPP – 300	12	15	(3)	(20)	16	14	2	14
OPP – 200	15	18	(3)	(17)	11	29	(18)	(62)
Mini-padders	71	77	(6)	(8)	62	70	(8)	(11)
Pipe layers	-	28	(28)	(100)	7	32	(25)	(78)
Oilfield services equipment	22	28	(6)	(21)	23	28	(5)	(18)

(1) Each machine is billed based on a padder month which typically consists of 24 billing days.

Financial Position

$Thousands, except ratios

	December 31, 2016	December 31, 2015
Working capital[1]	8,109	10,354
Long-term debt and capital lease[2]	3,268	4,124
Total assets	38,297	45,396
Debt service coverage[3]	0.35:1	0.9:1

(1) *Non-GAAP measurement, see commentary in "Non-Standard and Non-GAAP terms".*

(2) *Excludes current portion.*

(3) *Debt service coverage is the ratio of cash flow available to service debt to interest expense and scheduled principal payments of funded debt. This ratio is the covenant under the Company's lending agreement and must exceed 1.25:1 at all times. Cash flow available to service debt is calculated on a rolling 12 month basis as net income (i) plus interest expense, deferred income taxes, depreciation, unrealized foreign currency losses, stock based compensation, and any losses on disposal of fixed assets and (ii) less unrealized foreign currency gains and gains on disposal of fixed assets. Funded debt means all outstanding interest bearing debt including capital leases, debt subject to scheduled repayment terms, and credit card debt. The Lender amended the terms of the loans and confirmed that the company will not be subject to the debt service coverage covenant test for the financial year ended December 31, 2016. See note 9 to the financial statements and the section in this MD&A entitled "Liquidity and Capital Resources" for further discussion related to this covenant.*

Outlook

The following represents forward-looking information and users are cautioned that actual results may vary. There are indications that mainline pipeline activity in North America is likely to improve significantly, particularly in the United States. Based on current demand for large Padding Machines in the United States and, to a lesser extent, Canada, it appears that 2017 could prove to be a very busy year for both the pipeline construction industry and the Company. We currently have requests for approximately 98 months of large padding machine work in the United Sates and we are starting to get rental enquiries for large padding machines and mini-padding machines in Canada. We believe that it is possible that construction of at least one large diameter pipeline project will get under way in Canada during 2017. Activity levels from mini-padders remain strong in the United States. Utilization rates for mini-padder rentals are expected to continue in the range of 50 to 55 percent in 2017. The Company recently introduced a smaller version of its mini-padder, the micro-padder, in October 2016. We are bringing on two more micro-padder heads in March 2017. To date, customer acceptance of the micro-padder has been very good. We are hoping to be able to supplement our revenue from padding machine rentals with revenue from direct sales of mini-padder and micro-padder machines and padding heads going forward.

Cyclical and Seasonal Nature of ESI's Operations

The Company's business is dependent on the expenditures of oil and natural gas producers, pipeline owners and pipeline and Renewable Energy (wind and solar) construction contractors which are primarily driven by the current and anticipated prices of oil, natural gas and Renewable Energy.

The North American mainline pipeline construction industry is typically seasonal, with pipeline construction commencing in the first quarter of the year and peaking during the second and fourth quarters. The Canadian mainline cross country pipeline construction season tends to end during the second quarter of the year due to seasonal road bans (temporary restrictions on road usage) and restricted access to agricultural lands. Pipeline construction typically commences in May and continues through until late December when the industry shuts down for Christmas break.

The global pipeline construction industry is influenced by fluctuations in oil and gas prices, weather conditions, and demand for oil and gas in emerging markets. Domestic activity levels are also influenced by demand for residential and industrial construction requiring sewer and water pipelines, natural gas distribution and optical cable.

Oil and natural gas markets have been historically volatile, and are likely to remain so for the foreseeable future. Significant fluctuations in oil and natural gas prices may result from relatively minor changes in supply and demand factors, geo-political events, environmental and other uncertainties. Significant reductions in commodity prices can result in cost pressure on the projects undertaken by the Company's customers. This in turn can have a negative impact on the Company's profitability in terms of cost pressure or cancellation of projects.

Variability in the weather can also result in uncertainty and unpredictability in equipment activity and utilization rates which, in turn, can have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Modest increases in utilization rates can have a significant positive impact on ESI's profitability due to the Company's proportionately high fixed cost base.

Revenue, Operating Expenses and Gross Margin

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Revenue								
Padding machines	1,847	2,145	(298)	(14)	7,129	8,969	(1,840)	(21)
Pipe layers	1	358	(357)	(100)	245	1,684	(1,439)	(85)
Oilfield services equipment	106	123	(17)	(14)	439	526	(87)	(17)
Machine Sales	288	-	288	N/A	288	-	288	N/A
Total revenue	2,242	2,626	(384)	(15)	8,101	11,179	(3,078)	(28)
Operating expenses	1,019	879	140	16	3,948	4,134	(186)	(4)
Gross margin	**1,223**	**1,747**	**(524)**	**(30)**	**4,153**	**7,045**	**(2,892)**	**(41)**
Depreciation	1,256	511	745	146	4,608	5,506	(898)	(16)
Gross profit/(loss)	**(33)**	**1,236**	**(1,269)**	**(103)**	**(455)**	**1,539**	**(1,994)**	**(130)**

Three months ended December 31, 2016

During the fourth quarter of 2016, revenue declined to $2,242,000 from $2,626,000 in the fourth quarter of 2015, a decrease of 15 percent. The revenue decrease was the result primarily of lower revenue from padding machines and pipe layers.

Overall, the utilization rates for padding machines and oilfield services equipment decreased during the fourth quarter of 2016 while the utilization rate for pipe layers was nil as a previous contract had been completed.

The utilization rate for large padding machines decreased to 13 percent during the fourth quarter of 2016, down from 16 percent during the same period in 2015, while the utilization rate for mini-padding machines decreased to 71 percent during the fourth quarter of 2016 from 77 percent during the fourth quarter of 2015. The decrease in utilization rates for large padding machines was caused by a decline in demand for OPP-300 and OPP-200 machines.

The utilization rate for OPP-300 padding machines during the fourth quarter of 2016 was 12 percent compared with 15 percent during the same period in 2015, while the utilization rate for OPP-200 padding machines during the fourth quarter of 2016 was 15 percent, compared with 18 percent during the same period in 2015.

The utilization rate for pipe layers was zero percent during the fourth quarter of 2016 compared with 28 percent during the fourth quarter of 2015. Utilization rates for oilfield services equipment during the fourth quarter of 2016 decreased to 22 percent, down from 28 percent during the same period in 2015.

Revenue from pipeline padding decreased to $1,847,000 from $2,145,000 during the fourth quarter of 2015, down by 14 percent. Revenue from pipe layers was $1,000 during the fourth quarter of 2016 compared with $358,000 during the fourth quarter of 2015. Oilfield services equipment revenue during the fourth quarter of 2016 was down by 14 percent to $106,000 from $123,000 during the fourth quarter of 2015.

The Company sold a used mini-padder complete with a newly built mini-padder head. The mini-padder head was sold for $288,000 and it was recognized as a sale since it was built specifically for resale. This transaction represents the Company's first mini-padder head sale.

Operating expenses as a percentage of revenue during the fourth quarter of 2016 was 45 percent compared with 33 percent during the same period in 2015 due to higher expenditures for repairs in 2016 than in 2015.

Gross margin was $1,223,000 during the fourth quarter of 2016, a decrease from $1,747,000 during the same period in 2015. The decrease was due to lower machine rental revenue. Gross margin as a percentage of revenue during the fourth quarter of 2016 was 55 percent, compared with 67 percent during the same period in 2015.

Depreciation expense was $1,256,000 during the fourth quarter of 2016 compared to $511,000 in the same period of the prior year. During the fourth quarter of 2015 certain provisions that had been made as result of IFRS were revised downwards resulting in a reduction of depreciation during the period.

Twelve months ended December 31, 2016

Revenue for the year ended December 31, 2016 decreased to $8,101,000 from $11,179,000 during the same period in 2015, a 28 percent decrease.

The utilization rate for large padders for the twelve month period ended December 31, 2016 was 14 percent, down from 20 percent during the same period in 2015. The decrease in the utilization rate for large padders was caused by a decline in demand for OPP-200 padding machines. The utilization rate for OPP-200 padding machines for the year ended December 31, 2016 was 11 percent compared with 29 percent during the same period in 2015, while the utilization rate for OPP-300 padding machines for the year ended December 31, 2016 was 16 percent, compared with 14 percent during the same period in 2015. Utilization rates for large padding machines is driven by large diameter mainline pipeline construction which has been very slow, particularly in Canada. There are a number of large diameter mainline pipelines in Canada which have been announced but continue to be delayed as a result of environmental, regulatory and political issues. The decline in commodity prices has also contributed to mainline pipeline construction delays as the economics of some of these major projects being proposed are being revisited. Large diameter mainline construction is occurring in the United States but some projects have been slower to commence than anticipated. The utilization rate for mini-padders for the year ended December 31, 2016 was 62 percent, down from 70 percent in the same period of the prior year. Most of this activity has been driven by green energy (solar and wind-power) projects.

Pipe layer utilization was 7 percent for the year ended December 31, 2016, down from 32 percent during the same period in 2015. This substantial drop in the utilization rate was primarily due to the end of a contract and the decision to dispose of these assets.

The utilization rate for oilfield services equipment was 23 percent for the year ended December 31, 2016 down from 28 percent during the same period in 2015.

During the year 2016 revenue from pipeline padding decreased to $7,129,000 from $8,969,000 in 2015, a 21 percent decrease. The decrease was due to lower levels of activity in the United States. Revenue from pipe layers dropped by 85 percent to $245,000 during 2016 compared with $1,684,000 during 2015. This significant decrease was primarily due to the end of a contract at the beginning of 2016 and the decision to dispose of these pipe layers. Oilfield services equipment revenue was $439,000 for the year ended December 31, 2016 versus $526, 000 during the same period in 2015.

Operating expenses as a percentage of revenue during 2016 was 49 percent versus 37 percent during 2015. The higher percentage was caused by the relatively high level of fixed costs. Operating expenses decreased by $186,000 or 4 percent over the prior year.

Gross margin was $4,153,000 during the year ended December 2016 down from $7,045,000 during the corresponding period in 2015, a decrease of 41 percent. Gross margin as a percentage of revenue was 51 percent during the year ended December 31, 2016 compared with 63 percent during the same period in 2015.

Depreciation expense for the year ended December 31, 1016 was $4,608,000 compared with $5,506,000 for the corresponding period in 2015. Lower depreciation for the year ended December 31, 2016 was partly the result of the impairment of the value of pipe layers as at December 31, 2015 and September 30, 2016. The divestiture of six pipe layers in December 2015 and the disposition of other assets during 2016 and 2015 also contributed to lower depreciation in 2016.

Selling, General and Administrative Expense

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Selling, general & administrative expense	595	853	(258)	(30)	3,522	3,612	(90)	(2)
Unrealized foreign exchange loss(gain)	(188)	(801)	613	(77)	146	(1,506)	1,652	(110)
Total	407	52	355	683	3,668	2,106	1,562	74

Selling, general and administrative expenses were $595,000 during the fourth quarter of 2016 compared to $853,000 in the same period of 2015. For the year ended December 31, 2016, selling, general and administrative costs were $3,522,000 compared with $3,612,000 during the same period in 2015. During the year ended December 31, 2016, the increase of cost of salaries and benefits, insurance and the realized foreign exchange loss were offset by lower professional fees due to the conversion to IFRS which occurred in 2015.

The Company recorded an unrealized foreign exchange gain of $188,000 during the fourth quarter of 2016 down from $801,000 in the same period of 2015. For the year ended December 31, 2016, unrealized foreign exchange loss was $146,000 compared to gain of $1,506,000 in the same period of 2015. Unrealized foreign exchange gains and losses occur primarily on the translation of intercompany accounts.

Impairment

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Pipe layers	(2,273)	1,100	(3,373)	(307)	123	1,100	(977)	(89)
Total	(2,273)	1,100	(3,373)	(307)	123	1,100	(977)	(89)

Based on the results of the sale of two pipe layers at auction in 2016, management determined that the net book value of the pipe layers might not be fully recoverable. The Company concluded that it was possible that the net book value of pipe layers exceeded their fair value less costs of disposal and recorded an impairment charge of $1,972,544.

In March 2017, the remaining eight pipe layers were sold for an amount greater than their NBVs. Per IAS 10, paragraph 9 b) the subsequent sale would be considered an event that occurred after the reporting period that requires the entity to adjust the amounts recognized in its financial statements. IAS 10 specifically states that financial statements should be adjusted when the entity receives information after the reporting period indicating that the amount of a previously recognized impairment loss needs to be adjusted (IAS 10 9 b ii). $1,849,866 of the $1,972,544 impairment was therefore reversed in accordance with IAS 36, paragraph 117. The difference of $122,678 remains on the income statement as the impairment expense line item; the credit has been applied to accumulated depreciation.

Other Income (Expense)

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Finance expense	(70)	(138)	68	(49)	(302)	(733)	431	(59)
Finance and other income	51	17	34	200	203	95	108	114
Gain (loss) on disposal of capital assets	(325)	(1,253)	928	74	39	214	(175)	(82)

Interest and finance charges were $70,000 during the fourth quarter of 2016, compared to $138,000 during the same period in 2015, a decrease of 49 percent partly due to the termination of a finance lease at the end of December 2015. For the year ended December 31, 2016, interest and finance charges decreased by 59 percent to $302,000 from $733,000 partly due to the termination of the finance lease and the provision of $222,000 (US$180,000) for a doubtful account that was recorded in 2015.

Finance and other income consist primarily of interest income. For the fourth quarter of 2016, other income was $51,000 compared to $17,000 in the same period of 2015. On a year to date basis other income increased to $203,000 from $95,000 in 2015.

The Company recorded a loss on disposal of fixed assets of $325,000 during the fourth quarter of 2016 compared with a loss of $1,253,000 during the same period in 2015. A gain on disposition of one loader and inventory parts were also recorded in the same quarter. The loss in the fourth quarter of 2015 was caused by the disposition of pipe layers on which a loss of $685,000 was recorded. In addition, as explained in the depreciation section, certain estimates were revised in the fourth quarter of 2015. For the year ended December 31, 2016, the Company recorded a gain of $39,000 compared with a gain of $214,000 in 2015.

Income Taxes (Expense)

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Current tax recovery (expense)	4	(163)	167	(102)	(3)	(185)	182	(98)
Deferred tax recovery (expense)	-	172	(172)	(100)	-	159	(159)	(100)
Total income tax recovery (expense)	4	9	(5)	(56)	(3)	(26)	23	(88)

Current income tax recovery for the fourth quarter of 2016 was $4,000 compared with an expense of $163,000 during 2015. Current income tax expense for the year ended December 31, 2016 was $3,000 compared with an expense of $185,000 during the same period in 2015.

Amounts expensed represent payments to or from individual states. The Company is not currently taxable at a federal level in Canada or the United States. In addition, no benefit has been recognized in the financial statements for income tax losses.

Net Income, Funds Flow and Cash Flow from Operating Activities

$Thousands

	Three months ended December 31,				Twelve months ended December 31,			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Net income (loss)	678	(1,281)	1,959	(153)	(5,124)	(2,117)	(3,007)	142
Funds flow[(1)]	613	610	3	1	529	2,610	(2,081)	(80)
Cash flow from operating activities	7	2,105	(2,098)	(100)	1,659	1,222	437	36

(1) Funds flow from operations is a Non-GAAP measure. See commentary in "Non-Standard and Non-GAAP Items".

Net income attributable to shareholders increased to $678,000 for the fourth quarter of 2016, up from the net loss of $1,281,000 during the fourth quarter of 2015. Net loss attributable to shareholders increased during the year ended December 31, 2016 to $5,124,000 from a loss of $2,117,000 in the same period of 2015. The increase in the net loss was due to lower revenue, reverse takeover expenses and an unrealized foreign exchange loss compared to an unrealized foreign exchange gain in the prior period.

Funds flow from operations was $613,000 in the fourth quarter of 2016, compared with $610,000 for the corresponding quarter in 2015. Funds flow for the year ended December 31, 2016 decreased to $529,000 from $2,610,000 in 2015. The main reason for the decrease in funds flow was the drop in revenue.

Cash flow from operating activities was $7,000 in the fourth quarter of 2016 compared to $2,105,000 in the fourth quarter of 2015. This was because the decline in funds flow was more than offset by the drawdown of accounts and finance leases receivable in 2016.

Capital Expenditures

Cash used for capital expenditures totaled $169,000 in the fourth quarter of 2016 compared to $600,000 in the fourth quarter of 2015, and $2,174,000 on a year to date basis in 2016 compared to $4,663,000 in 2015. Capital expenditures for padding machines, in both the three and twelve month periods ended December 31, were related to the ongoing retrofitting of large padding machines and the development of micro-padders. Two new pipe layers were added to the fleet in 2015.

During the year ended December 31, 2016, the Company sold two pipe layers, three padding machines and related parts for combined net proceeds of $941,000. During the year ended December 31, 2015, the Company sold three padding machines and other equipment for combined net proceeds of $2,655,000.

Liquidity and Capital Resources

At December 31, 2016, the Company's statement of financial position included working capital (current assets minus current liabilities) of $8,109, 000 compared to $10,354,000 at December 31, 2015.

Cash and short term investment balances decreased to $9,998,145 at December 31, 2016 from $11,524,000 at December 31, 2015. Available cash was used to finance capital expenditures and the repayment of long-term debt.

The Company chooses to maintain a conservative balance sheet due to the cyclical nature of the industry.

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to augment existing resources in order to meet growth requirements.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may sell assets, reduce capital expenditures and/or draw on its credit facilities.

As at December 31, 2016, the Lender waived the financial covenant on a term loan which was used to refinance a capital loan and first and supplemental mortgages on a property located in Leduc, Alberta. The term loan and the first mortgage were subsequently reclassified as current liabilities due to being repayable in 2017.

The supplementary mortgage which is not due until April 2018 remains classified as long term debt in the financial statements at December 31, 2016.

Contractual Obligations

The following table reflects the Company's anticipated payment of contractual obligations related to continuing operations as at December 31, 2016.

$Thousands

	2017	2018	2019	2020	2021	Thereafter
Operating facility and equipment leases	168	160	159	39	-	-
Loans and borrowings	2,022	2,386	119	126	134	483
Trade and other payables	1,263	-	-	-	-	-
Income tax payable	80	-	-	-	-	-
Deferred revenue	44	-	-	-	-	-

Obligation under finance lease	30	20	-	-	-	-
Total	3,607	2,566	278	165	134	483

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at December 31, 2016 and 2015, other than operating leases.

Summary of Quarterly Results

The following table shows key selected quarterly financial information for the Company.

$Thousands

2016 and 2015 Three Months Ended

	Mar.31	**Jun. 30**	**Sept. 30**	**Dec.31**	**Total**
2016					
Revenue	1,507	1,401	2,951	2,242	8,101
Net Income (loss)	(1,995)	(1,430)	(2,377)	678	(5,124)
Earnings (loss) per share-basic ($)	(0.04)	(0.03)	(0.05)	0.02	(0.11)
Earnings (loss) per share-diluted ($)	(0.04)	(0.03)	(0.05)	0.02	(0.11)
Funds flow from operations	(560)	(658)	1,134	613	529
Cash flow from operations	540	(477)	1,589	7	1,659
2015					
Revenue	2,092	2,522	3,939	2,626	11,179
Net Income (loss)	(1,039)	(1,730)	1,934	(1,281)	(2,116)
Earnings (loss) per share-basic ($)	(0.03)	(0.05)	0.06	(0.04)	(0.05)
Earnings (loss) per share-diluted ($)	(0.03)	(0.05)	0.06	(0.04)	(0.05)
Funds flow from operations	47	165	1,788	610	2,610
Cash flow from operations	262	(873)	(272)	2,105	1,222

Revenue can be significantly affected by seasonality and the status of projects over which the Company has no control. During the summer of 2015 there was an increase in demand for large machines which drove revenue higher partly in the second quarter but primarily in the third quarter. Demand then declined during the fourth quarter and remained low into the summer of 2016 until demand grew again in the fall.

Cash flow from (used in) operating activities is a result of the underlying operations of the Company plus or minus net changes in non-cash working capital. The cash flow during 2015 did not show the same pattern as revenue. This was because during 2015 the Company entered into certain transactions that were recorded as finance leases receivable. No revenue was recorded in relation to these finance leases as they were treated as asset dispositions, but they initially reduced cash flows as the receivable had to be financed. During the fourth quarter of 2015 and the first quarter of 2016 the pattern reversed as the Company received the funds. In the third quarter of 2016 cash flow increased primarily because of the greater revenue and it was again decreased in the fourth quarter because of the lower revenue and reverse takeover expenses.

Net income (loss) is determined by revenue as noted above but also by non-cash items. In the fourth quarter of 2014 the Company expensed a deferred tax asset that increased the loss recorded. In the fourth quarter of 2015 and again in the third quarter of 2016, the Company recorded an impairment charge which increased the loss. Various other items such as gains and losses on the disposal of capital assets, foreign exchange gains and losses, and provisions for doubtful accounts also have an impact on the reported net income (loss).

Non-Standard and Non-GAAP Items

We reference measures that are not recognized under International Financial Reporting Standards. These measures include EBITDA, and funds flow.

EBITDA

EBITDA, defined as earnings before finance income and expense, income taxes, depreciation and amortization, gain or loss on disposal of property and equipment, and unrealized foreign currency gain or loss, is not a financial measure that is recognized under GAAP. However, management believes that EBITDA is a useful measure as it gives an indication of the results from the Company's principal business activities prior to consideration of how activities are financed, and the impact of foreign exchange, taxation and non-cash charges for depreciation and amortization. Investors should be cautioned, however, that EBITDA should not be construed as an alternative measure to net earnings determined in accordance with GAAP. ESI's method of calculating EBITDA may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of net earnings to EBITDA.

$Thousands

	Three months ended December 31,		**Twelve months ended December 31,**	
	2016	**2015**	**2016**	**2015**
Net income (loss)	678	(1,282)	(5,124)	(2,117)
add (deduct):				
Depreciation	1,256	511	4,608	5,506
Impairment	(2,273)	107	123	107
Provision for income taxes	(4)	(9)	3	26
Finance cost	70	138	302	733
Finance and other income	(51)	(17)	(203)	(95)
Loss (gains) on disposal of property, plant & equipment	325	1,254	(39)	(214)
Unrealized foreign currency loss (gains)	(188)	(801)	146	(1,506)
Reverse takeover expenses	815	-	815	-
EBITDA as reported	628	(99)	631	2,440

EBITDA for the three months ended December 31, 2016 was $628,000 as compared to -$99,000 in the prior year. The primary reason for the decline was the lower revenue of $2,242,000 as compared to $2,626,000 in the prior year.

EBITDA for the year ended December 31, 2016 was $631,000 as compared to $2,440, 000 in the prior year. The primary reason for the decline was the lower revenue of $8,101, 000 as compared to $11,179,000 in the prior year.

Changes in the levels of revenue are discussed in an earlier section of this MD&A.

Funds from Operations

Funds from operations is calculated as cash flow from operating activities, as presented in the consolidated statement of cash flow, prior to any increases or decreases in working capital. This is not a measure recognized under GAAP. Management believes funds flow is a useful measure as it provides an indication of the funds generated by the Company's principal business and eliminates the impact of seasonal fluctuations and lack of comparability between periods of non-cash working capital balances, which consist primarily of highly liquid balances. However, this financial measure should not be construed as an alternative measure to cash flows from operating activities determined in accordance with GAAP. ESI's method of calculating funds from operations may differ from that of other organizations and, accordingly, it may not be comparable to that of other companies.

The following is a reconciliation of cash flows from operating activities to funds from operations.

$Thousands

	Three months ended December 31,		Twelve months ended December 31,	
	2016	2015	**2016**	2015
Funds from (used in) operations	613	610	529	2,610
add (deduct):				
Changes in non-cash working capital	2,866	(1,495)	1,130	(1,388)
Cash flow from operating activities	7	1,923	1,659	1,222
Funds flow per share	$(0.01)	$0.01	$(0.01)	$0.06

The changes in funds flow reflect the changes in revenue as discussed above.

Forward-Looking Statements

From time to time ESI makes forward-looking statements. These statements include but are not limited to comments with respect to ESI's objectives and strategies, financial condition, results of operations, the outlook for the industry and risk management.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be realized. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by factors such as: the level of pipeline construction carried on by ESI's customers, world crude oil prices and North American natural gas prices, weather, access to capital markets, and government policies. We caution that the foregoing list of factors is not exhaustive and that investors and others should carefully consider the foregoing factors as well as other uncertainties and events prior to making a decision to invest in ESI. Except as required by law, the Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by it or on its behalf.

Consolidated Financial Statements

ESI Energy Services Inc.

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of ESI Energy Services Inc., Management's Discussion and Analysis and other information relating to ESI contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with International Financial Reporting Standards (also referred to as "IFRS") using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of assets, assumptions around future income tax calculations and the measurement of asset impairment losses. Financial information throughout this Annual Report is consistent with the consolidated financial statements except as noted.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 3.

The Board of Directors, through its Audit Committee comprised of three independent directors as defined in National Instrument 52-110 – Audit Committees ("NI 52-110"), and one director who is exempt from the independence requirements of NI 52-110, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

signed "*Robert R. Dunstan*"

Robert R. Dunstan
President & Chief Executive Officer

signed "*Edward G. Rigaux*"

Edward G. Rigaux
Chief Financial Officer

April 26, 2017

Independent Auditor's Report

To the Shareholders of
ESI Energy Services Inc.

We have audited the accompanying consolidated financial statements of ESI Energy Services Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of operations and comprehensive income (loss), statement of changes in shareholder's equity and statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP

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Opinion

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

Revision of Comparative Information

The financial statements of ESI Energy Services Inc. for the year ended December 31, 2015 (prior to the revision of the comparative information described in Note 2.2 to the financial statements) were audited by another auditor who expressed an unmodified opinion on those financial statements on October 27, 2016.

As part of our audit of the financial statements of ESI Energy Services Inc. for the year ended December 31, 2016, we also audited the adjustments described in Note 2.2 that were applied to revise the financial statements for the year ended December 31, 2015. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of ESI Energy Services Inc. for the year ended December 31, 2015 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 2015 taken as a whole.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Consolidated Statement of Financial Position

(CAD thousands)
As at

	*note**		December 31, 2016		Revised December 31, 2015
ASSETS					
Current					
Cash and cash equivalents	4	$	5,707	$	11,524
Short term investments	5		4,291		-
Accounts receivable	6		1,462		1,405
Finance leases receivable	7		-		1,660
Prepaid expenses			88		136
Total current assets			11,548		14,725
Non-current assets:					
Property and equipment	8		26,749		30,671
Total assets		**$**	**38,297**	**$**	**45,396**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities	13	$	1,263	$	1,156
Deferred revenue			44		60
Income tax payable			80		173
Current portion of long term debt	9		2,022		5,908
Current portion of lease obligation	10		30		28
Total current liabilities			**3,439**		**7,325**
Non-current liabilities:					
Long-term debt	9		3,248		1,120
Obligations under finance lease	10		20		50
Total liabilities			**6,707**		**8,495**
SHAREHOLDERS' EQUITY					
Share capital	11		40,457		40,207
Contributed surplus	11		1,598		1,598
Accumulated other comprehensive income			4,472		4,909
Deficit			(14,937)		(9,813)
Total shareholders' equity			**31,590**		**36,901**
Commitments	14				
Total liabilities and shareholders' equity		**$**	**38,297**	**$**	**45,396**

* *The accompanying notes to the consolidated financial statements, which begin on page 9, are an integral part of the consolidated financial statements.*

Approved by the Board of Directors,

signed "*Harold R. Zimmer*"

Harold R. Zimmer
Director

signed "*Robert R. Dunstan*"

Robert R. Dunstan
President, Chief Executive Officer and Director

Consolidated Statement of Operations and Comprehensive Income (Loss)

(CAD thousands)

	note*	Year Ended December 31, 2016	Year Ended December 31, 2015
REVENUE			
Sales	13	$ 8,101	$ 11,179
COSTS AND EXPENSES			
Operating and maintenance		3,948	4,134
Depreciation and amortization		4,608	5,506
Selling and administrative	17	3,668	2,106
Total costs and expenses		**12,224**	**11,746**
LOSS FROM OPERATIONS		**$ (4,123)**	**$ (567)**
Other items:			
Impairment	8	(123)	(1,100)
Gain (loss) on disposal of property and equipment		39	214
Finance and other income		203	95
Finance costs		(302)	(733)
Transaction costs	19	(815)	-
Loss before income taxes		**(5,121)**	**(2,091)**
Income taxes (expense)			
Current		(3)	(185)
Deferred		-	159
Total income taxes		(3)	(26)
Net loss		**(5,124)**	**(2,117)**
Items that may be reclassified subsequently to net income			
Foreign exchange gain (loss) on translation adjustments on foreign operations		(437)	3,098
Comprehensive income (loss)		**$ (5,561)**	**$ 981**
Basic earnings per share		(0.11)	(0.05)
Diluted earnings per share		(0.11)	(0.05)

* *The accompanying notes to the consolidated financial statements, which begin on page 9, are an integral part of the consolidated financial statements.*

Consolidated Statement of Changes in Shareholders' Equity

(CAD thousands)

	*note**		Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income		Total Shareholders' Equity
Balance at January 1, 2015		$	40,207	1,598	(7,696)	1,811	$	35,920
Foreign currency translation adjustment			-	-	-	3,098		3,098
Net loss			-	-	(2,117)	-		(2,117)
Balance, December 31, 2015		**$**	**40,207**	**1,598**	**(9,813)**	**4,909**	**$**	**36,901**
Foreign currency translation adjustment			-	-	-	(437)		(437)
Share Consideration			250	-	-	-		250
Net loss			-		(5,124)	-		(5,124)
Balance, December 31, 2016	11	**$**	**40,457**	**1,598**	**(14,937)**	**4,472**	**$**	**31,590**

* *The accompanying notes to the consolidated financial statements, which begin on page 9, are an integral part of the consolidated financial statements.*

Consolidated Statement of Cash Flows

(CAD thousands)

	note*	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash provided by (used in)			
OPERATING ACTIVITIES			
Net loss		$ (5,124)	$ (2,117)
Items not involving cash:			
Depreciation	8	4,608	5,506
Impairment	8	123	1,100
Deferred income taxes	12	-	(159)
Gain on disposal of equipment		(39)	(214)
Unrealized foreign currency loss (gain)		146	(1,506)
Share consideration	19	250	-
Transaction costs	19	565	-
Funds flow from operations		529	2,610
Net change in non-cash working capital	16	1,130	(1,388)
Cash flow from operating activities		**1,659**	**1,222**
INVESTING ACTIVITIES			
Proceeds on disposal of property & equipment		941	2,655
Purchase of property & equipment		(2,174)	(4,663)
Investments in GIC	5	(4,291)	-
Cash flow used in investing activities		**(5,524)**	**(2,008)**
FINANCING ACTIVITIES			
Proceeds on debt		89	-
Repayment of long-term debt		(1,848)	(1,974)
Repayment of finance lease obligation		(28)	(953)
Transaction costs	19	(565)	-
Net changes in non-cash working capital	16	470	-
Cash flow from financing activities		**(1,882)**	**(2,927)**
Effect of exchange rate changes on cash and cash equivalents		(70)	719
Decrease in cash and cash equivalents		(5,817)	(2,994)
Cash and cash equivalents, beginning of year		11,524	14,518
Cash and cash equivalents, end of year		**$ 5,707**	**$ 11,524**

* *The accompanying notes to the consolidated financial statements, which begin on page 9, are an integral part of the consolidated financial statements.*

1. Reporting entity

1.1. *Description of business*

ESI Energy Services Inc. (”ESI” or the “Company”) was incorporated as a numbered company under the Business Corporations Act (Alberta) ("ABCA") on February 22, 2001. The Company's Articles of Incorporation were amended and the Company changed its name to "ESI Energy Services Inc." on September 12, 2001. These consolidated financial statements comprise ESI and its subsidiaries, all of which are wholly owned (together referred to as the “Company”).

On September 29, 2016, the Company entered into an arrangement agreement with Exploratus Ltd. ("Exploratus") and 1994687 Alberta Ltd. ("Spinco"). The Arrangement was approved by written resolution of the ESI Shareholders on October 25, 2016 and the Exploratus Shareholders at a shareholders' meeting held on November 21, 2016. The Arrangement resulted in New ESI having a public shareholder base to meet one of the Canadian Securities Exchange (“CSE”) listing conditions. ESI filed a Non-offering Long Form Prospectus with the Alberta Securities Commission on November 28, 2016. The Company’s common shares were listed for trading on the Canadian Securities Exchange (“CSE”). The shares trade under the symbol OPI. A significant portion of the Company’s shares are owned by Yorktown Partners IV and Yorktown Partners VI.

The Company currently operates in most provinces in western Canada as well as in the United States of America. The Company, through its operating subsidiaries, ESI Pipeline Services Ltd. ("ESIPSL") and Ozzie's Pipeline Padder, Inc. ("OPI"), supplies (rentals and sales) backfill separation machines ("Padding Machines") to mainline pipeline contractors and renewables and utility construction contractors as well as oilfield pipeline and construction contractors.

The Company maintains its registered corporate and head office at suite 500, 727 – 7th Avenue SW, Calgary, Alberta, Canada, T2P 0Z5.

2. Basis of presentation

2.1. *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The comparative figures have been reclassified to conform to the current year financial statement presentation.

These consolidated financial statements were authorized for issue by the Board of Directors on April 26, 2017.

2.2. *Revision to prior period financial statements*

In preparation of the consolidated financial statements for the year ended December 31, 2016, the Company identified an error related to OPI’s spare parts that understated their value in the amount of US$964,000. The Company assessed the error and concluded that the error was not material to any of its previously issued financial statements as is not expected to be material to the 2016 results, either individually or in aggregate. However, the Company chose to revise its previously issued consolidated financial statements to correctly present comparative financial statement balances. The following revision was made to property and equipment and retained earnings to correct this error.

(CAD thousands)	Dec 31, 2015	Adjustment	Revised Dec 31, 2015
Property and equipment	29,335	1,334	30,671
Retained earnings (deficit)	(10,806)	993	(9,813)
Accumulated other comprehensive income	(4,568)	(341)	(4,909)

This revision was non-cash related and had no effect on the consolidated income statement, the earnings per share or cash flow for the years ended December 31, 2015 and December 31, 2016.

3. Significant accounting policies

3.1. *Basis of measurement*

The consolidated financial statements are prepared on a historical cost basis, except as specifically noted within these notes to the consolidated financial statements.

3.2. *Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of two of the subsidiary companies is the US dollar, and that of the parent and the other subsidiary company is the Canadian dollar.

3.3. *Basis of consolidation*

Subsidiaries

Included in the Company's consolidated financial statements are the financial statements of the subsidiaries, ESI Pipeline Services Inc., Ozzie's Pipeline Padder Inc., ESI Pipeline Services Ltd, and ESI Energy Services (Australia) Pty Ltd. all of which are wholly owned.

Transactions eliminated on consolidation

Intra-company balances and transactions are eliminated.

3.4. *Use of judgments and estimates*

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Impairment

The Company tests impairment of long-lived assets with determinate useful lives when indications of impairment exist. Application of judgment is required in determining if indicators of impairment exist and the recoverable value.

Leases and lease classification

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease. If an arrangement is determined to contain a lease then the Company must classify the lease as either an operating or a finance lease. Classification as a finance lease involves judgment over lease terms as finance lease criteria, including assumptions over the useful life and fair value of the leased asset and the determination of bargain purchase options.

Estimates

Accounts Receivable

Accounts receivable are recorded when sales are made or services are rendered. When it appears that the receivable may not be collected in full or part, an allowance is made and the receivable is reduced. The allowance recorded is based on managements' best estimate of the amount that will be collected.

Finance Leases

In order to determine whether a lease is a finance lease, management has to assess if it transfers substantially all the risks and rewards incidental to ownership. Classification as a finance lease involves estimates including useful lives and fair values of the leased assets.

Depreciation

Depreciation methods are based on management's estimate of the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Company. Among other factors, these estimates are based on industry standards and Company-specific history and experience.

Impairment

The Company performs impairment tests on long-lived assets when impairment indicators exist. An asset is considered impaired and written down only when the impairment test demonstrates that the carrying value is not recoverable. The determination of recoverable amounts on any given asset is subject to significant estimates regarding the timing and magnitude of cash flows and appropriate discount rates for the value in use method. Significant estimates relating to market value are needed when the fair value is used as the recoverable amount.

Share-based payments

The Company determines the fair value of share-based payments using a Black-Scholes option-pricing model. There are a number of estimates used in the calculation such as the expected future forfeiture rate, the expected period the share-based compensation is outstanding and the future price volatility of the underlying security. The factors applied in the calculation are management's estimates based on historical information and future forecasts and may vary from expectations.

Deferred income taxes

The recoverability of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences and other tax credits will reverse, and the general assumption that substantively enacted future tax rates at the balance sheet date will remain in effect when differences reverse.

3.5. *Foreign currency*

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company or the respective subsidiary at the exchange rate in effect at the time of the transaction. Monetary items are then translated into the Company's functional currency at each reporting period at the exchange rates in effect at date of the statements of financial position. Non-monetary items are translated at historic rates. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Gains and losses on foreign currency transactions are included as a separate line item in the consolidated statements of operations and comprehensive income (loss).

Foreign currency translation

The Company's non-Canadian subsidiaries functional currency is the US dollar, and therefore, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the financial statement date and revenues and expenses are translated at the average exchange rates for the period. Translation gains or losses are included in other comprehensive income (loss). When the settlement of an intercompany receivable or intercompany payable is neither planned nor likely foreseeable in the future, foreign exchange gains or losses arising on the translation of those intercompany balances is considered a part of the net investment in the foreign operation and are recognized in other comprehensive income (loss).

3.6. *Financial Instruments*

Financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for sale financial assets.

The Company has the following financial assets: cash and cash equivalents, accounts receivable, short term investments and finance lease receivable.

Cash and cash equivalents comprise cash balances and deposits with original maturities of three months or less. Short term investments are considered to be deposits that mature over more than three months. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment.

Financial liabilities

The Company has the following financial liabilities: line of credit, long-term debt, deferred revenue, and accounts payable and accrued liabilities, income taxes payable and obligations under finance lease.

Obligations under a finance lease are initially recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequently, the minimum lease payments made are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial liabilities - measurement

Financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities

Financial assets and financial 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 them on a new basis or to realize the asset and settle the liability simultaneously.

Fair Values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3.7. *Property, plant and equipment*

Capitalization, recognition and measurement

The capital cost of an asset is the aggregate of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and for qualifying assets, borrowing costs. For acquired assets, the purchase price is the aggregate amount paid and the fair value of any other consideration given up to acquire the asset. Expenditures on major maintenance, inspection, and overhauls are capitalized when the item enhances the life or performance of an asset above its original condition. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the replacement item will flow to the Company, the replacement expenditure is capitalized and the carrying amount of the replaced asset is charged to the statement of operations and comprehensive income (loss). Routine costs incurred to repair or maintain property and equipment are expensed as incurred.

When an item of property and equipment is disposed of or when there are no net future economic benefits expected from the continued use of the asset, the asset is removed from the accounts (derecognized) and any gain or loss arising on derecognition (calculated as the difference between net disposal proceeds and the carrying amount of the item), is recognized in the statement of operations and comprehensive income (loss).

Depreciation

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Padding equipment componentized assets consists of padding equipment add-ons such as elevators and conveyors. Due to the nature of these assets they undergo more wear in the earlier years and are depreciated using the declining balance basis.

The method of depreciation and estimated useful lives of property, plant and equipment for current and comparative years are as follows:

Asset	Basis	Rate
Buildings	Straight-line	30-40 years

Padding equipment non-componentized	Straight-line	5-10 years
Padding equipment componentized	Declining balance	2.5-10 years
Pipe layers	Straight-line	5-10 years
Major overhauls	Declining balance	5-10 years
Oilfield service equipment	Straight-line	5-10 years
Office furniture & equipment	Straight-line	2-5 years
Shop equipment	Straight-line	2-5 years

Impairment evaluations

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is the present value of the expected future cash flows of the relevant assets or Cash Generating Units ("CGUs"). For the purpose of assessing impairment, assets are grouped into CGUs that are the lowest levels for which there are separately identifiable cash flows. Impairment losses may be reversed in future periods if there are indicators of a reversal and the recoverable amount of a CGU has increased.

Leased assets

Leases on terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leased assets are classified as operating and are not recognized in the Company's statement of financial position.

3.8. *Revenue recognition*

Rental revenue from padding machines, pipe layers and oilfield service equipment is recognized with the passage of time under month to month contracts, starting when the equipment is shipped, recovery of the consideration is probable and the amount of revenue can be measured reliably. Upon commencement of the rental contract, customers are invoiced in advance for equipment and spare parts, and consumables. Spare parts and consumables are invoiced in advance for the full value of the spare parts and consumables delivered. Payments for spare parts and consumables delivered are recorded as deferred revenue. Upon return of the rented equipment, the customer is refunded the value of any spare parts and consumables returned, less a restocking fee.

Revenue on the sale of spare parts and consumables related to rented or sold equipment is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3.9. *Share-based compensation plans*

Compensation expense associated with options granted under the Company's share-based option plan is deferred and recognized in general and administrative expense over the vesting period of the options. Awards issued under the option plan are equity-settled awards, and therefore, the expense is offset to contributed surplus. The Company measures the fair value of options at the date of grant using a Black-Scholes option pricing model. For options with graded vesting terms, fair value is determined for each vesting period as if it were a separate award. An estimate of forfeitures is applied to the total options expected to vest that is trued up to actual forfeitures at each vesting date.

3.10. *Income taxes*

Income tax expense comprises current and deferred tax. It is recognized in the Statement of Income (Loss) except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes

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

Deferred income taxes

Deferred income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction other than a business combination.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary difference to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income 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.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

3.11. *Standards issued but not yet adopted*

A number of new standards and amendments to standards, potentially applicable to the Company, are effective for annual periods beginning after January 1, 2017. The Company has not applied the following new or amended standards in preparing these consolidated financial statements.

- On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments, replacing the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.
- On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 18 Transfer of assets from customers and IFRIC

13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

- On January 13, 2016, the IASB issued IFRS 16 (Leases). IFRS 16 replaces the existing guidance in IAS 17 Leases. IFRS 16 requires the recognition of lease assets and of obligations on the balance sheet. For Lessees almost all leases will have to be treated as financial leases although lessor will still have the two classifications. The standard is effective for years starting January 1, 2019.

The Company intends to adopt these standards and amendments in its financial statements as of the effective dates. The Company is in the process of assessing the impact of adopting these standards on the Company's consolidated financial statements.

4. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

(CAD thousands)

	December 31, 2016	December 31, 2015
Cash	$ 5,698	$ 3,581
Deposits	9	7,943
	$ 5,707	$ 11,524

5. Short term investments

(CAD thousands)

	December 31, 2016	December 31, 2015
GIC	$ 4,291	$ -
	$ 4,291	$ -

Short term investment of $4,291,000 consists of Cashable Guaranteed Investment Certificate (GIC) held at one Canadian chartered bank and earns interest at a rate of 1.55%. The GIC will mature on September 07, 2017.

6. Accounts receivable

Accounts receivable are comprised of the following:

(CAD thousands)

	December 31, 2016	December 31, 2015
Trade receivables	$ 1,925	$ 1,880
Allowance for doubtful accounts	(524)	(540)

Other receivables	61	65
	$ 1,462	$ 1,405

7. Finance leases receivable

(CAD thousands)

	December 31, 2016	**December 31, 2015**
	Minimum lease payments from finance leases	Minimum lease payments from finance leases
Less than one year	$ -	$ 1,718
Between one and five years	-	-
After five years	-	-
Unearned finance income	-	(58)
	$ -	$ 1,660

In 2015 the Company recognized three finance lease receivables which matured during 2016. During the first quarter of 2016 one of these leases was terminated with the return of the related machine. Accordingly, the receivable was reduced and the machine was put into property and equipment. The Company entered into no new finance leases in 2016.

8. Property and equipment

(CAD thousands)

	Padding Equipment (including spare parts)	Pipe Layers	Land & Buildings	Other	Total
COST					
At January 1, 2015	$ 30,901	$ 10,057	$ 6,363	$ 1,990	$ 49,311
Additions	2,761	1,894	-	8	4,663
Disposals	(3,818)	(4,343)	-	-	(8,161)
Foreign currency translation adjustments	1,404	-	570	244	2,218
At December 31, 2015	$ 31,248	$ 7,608	$ 6,933	$ 2,242	$ 48,031
Additions	2,116	-	26	32	2,174
Disposals	(2,033)	(1,320)	-	(13)	(3,366)
Foreign currency translation adjustments	(773)	-	(118)	(37)	(928)
At December 31, 2016	$ 30,558	$ 6,288	$ 6,841	$ 2,224	$ 45,911
ACCUMULATED DEPRECIATION					
At January 1, 2015	$ (11,466)	$ (1,083)	$ (1,293)	$ (1,398)	$ (15,240)
Depreciation	(3,679)	(1,306)	(78)	(443)	(5,506)
Impairment	-	(1,100)	-	-	(1,100)
Disposals	2,062	806	-	-	2,868
Foreign currency translation adjustments	1,664	-	(133)	87	1,618
At December 31, 2015	$ (11,419)	$ (2,683)	$ (1,504)	$ (1,754)	$ (17,360)
Depreciation	(3,806)	(578)	(124)	(100)	(4,608)
Impairment	-	(123)	-	-	(123)
Disposals	2,089	558	-	2	2,649
Foreign currency translation adjustments	215	-	31	34	280
At December 31, 2016	$ (12,921)	$ (2,826)	$ (1,597)	$ (1,818)	$ (19,162)
NET BOOK VALUE					
At December 31, 2015	$ 19,829	$ 4,925	$ 5,429	$ 488	$ 30,671
At December 31, 2016	$ 17,637	$ 3,462	$ 5,244	$ 406	$ 26,749

As at December 31, 2016, included in padding equipment are assets under construction with a cost of $0.3 million (December 31, 2015 - $1.6 million). During the year presented, no depreciation was recorded for assets under construction.

On July 1, 2016, two RL-44 pipe layers were moved from non-current to current assets held for sale at a net book value of $755,957. The two assets were sold in September for $333,000.

9. Long-term debt

(CAD thousands)

	December 31, 2016	December 31, 2015
Capital Loan	$ -	$ 2,478
Term Loan (i)	1,138	-
Mortgage – Leduc (ii)	2,982	3,279
Mortgage – Phoenix (iii)	1,078	1,211
Finance agreements (iv)	61	37
Other	11	23
Total long-term debt	5,270	7,028
Less		
Current portion of long-term debt	2,022	5,908
Net long-term debt	$ 3,248	$ 1,120

The Company has a term loan and a mortgage outstanding with a Canadian chartered bank, a mortgage outstanding with a US bank, and minor obligations relating to equipment. Security for the term loan facility consists of cash and cash equivalents, accounts receivable, and general security agreements and guarantees from the Company and its subsidiaries. Further details are provided below:

i) The term loan was used to repay the capital loan and bears interest at the bank's prime rate. The term loan is repayable on demand. The Company is required to pay equal monthly principal payments plus interest of $125,000 per month over the term of the loan. The loan will be repaid in full no later than April 30, 2017.

ii) Mortgage – Leduc consists of two mortgages on a property located in Leduc, AB. Both mortgages bear interest at a rate of 4.75% per annum.

   a. The Company is required to pay equal monthly installments on the first mortgage of $16,140 over a five-year term ending on February 28, 2017. This credit facility was subsequently extended to April 30, 2017.

   b. The Company is required to pay equal monthly instalments on the second mortgage of $23,400 over a five year term ending on April 30, 2018.

iii) Mortgage – Phoenix consists of a mortgage on a property located in Phoenix, AZ. The mortgage bears interest at the variable rate of the US 6 month constant maturities Treasury note plus 5.25%. As at December 31, 2016 the actual rate was 6.07% (2015 – 5.76 %) per annum and the mortgage is amortized over a term of 20 years ending in February 2025. The Company is required to pay monthly instalments on the mortgage, ranging from US $9,961 to US$12,195. As of March 31, 2017 the mortgage was paid in full with a remaining balance of $nil.

iv) Finance agreement includes loans related to track loader that was individually financed through the manufacturer in 2016. This interest free loan is denominated in US dollars and requires total monthly payments of US$5,640, expiring in August 2017.

v) The Company had financial debt covenants related to the Leduc mortgage and the term loan of a minimum debt service coverage ratio of 1.25:1. Prior to December 31, 2016, Lender confirmed that the company will not be subject to the debt service coverage covenant test for the financial year ended December 31, 2016.

Debt obligations are repayable as follows:

(CAD thousands)

2017	$	2,022
2018		2,386
2019		119
2020		126
2021		134
Thereafter		483
	$	5,270

10. Obligation under finance lease

Obligations under finance lease as at December 31, 2016 relate to leased vehicles is as below.

(CAD thousands)

		December 31, 2016		**December 31, 2015**
Obligation under finance lease	$	50	$	78
Less				
Current portion		30		28
Net finance lease obligation	$	20	$	50

Based on current scheduled principal repayments the remaining finance lease obligations are repayable as follows:

(CAD thousands)

2017	$	30
2018		20
	$	50

11. Share capital

11.1. *Authorized*

The Company has authorized an unlimited number of common shares and preferred shares with no par value. No preferred shares have been issued.

Issued and outstanding

As at December 31, 2016 and December 31, 2015:

	December 31, 2016		December 31, 2015	
	Number of Common Shares	*Amount $Thousands*	*Number of Common Shares*	*Amount $Thousands*
Issued and outstanding, end of year				
Opening	44,686,722	40,207	44,686,722	40,207
Issued	314,070	250		
Issued and outstanding, end of period	45,000,792	40,457	44,686,722	40,207

As a result of the Plan of Arrangement, a share exchange of 0.7514 was determined and agreed upon by non-related parties for the valuation of the shares (see Note 19). The numbers of shares for all periods presented have been adjusted for this 0.7514 share exchange rate without a corresponding change in dollar amounts. Earnings per share have been adjusted to reflect the impact of the share exchange.

Share based payments

As of November 28, 2016, the Company had an aggregate of 1,300,000 stock options issued and outstanding. Pursuant to the Plan of Arrangement (the "Plan"), all ESI Options were surrendered by the holders for nominal consideration and cancelled immediately prior to the effective date of the Plan (see Note 19 for additional information).

Warrants

As of December 31, 2016, the Company has 1.98 million warrants. Each warrant is to purchase one share of the Company with an exercise price of $0.86. These warrants will expire October 19, 2018.

At December 31, 2016, the outstanding warrants have a weighted-average remaining life of 1.8 years (December 31, 2015 – 2.8 years).

11.2. *Contributed surplus*

(CAD thousands)

	December 31, 2016	December 31, 2015
Contributed surplus, beginning of year	$ 1,598	$ 1,598
Stock based compensation	-	-
Contributed surplus, end of year	$ 1,598	$ 1,598

11.3. *Basic and Diluted EPS*

As at December 31, 2016 and December 31, 2015:

	December 31, 2016		December 31, 2015	
	Number of Common Shares	*Earnings Per Share*	*Number of Common Shares*	*Earnings Per Share*
Issued and outstanding, end of year				
Weighted average number of common shares used in basic earnings per share	44,712,894	(0.11)	44,686,722	(0.05)
Dilution effect of options	-	-	-	-
Weighted average number of common shares used in diluted earnings per share	44,712,894	(0.11)	44,686,722	(0.05)

For the year ended December 31, 2016, 1,191,667 shares were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive (2015 – 1,300,000)

12. Income Taxes

The components of income tax expense are:

(CAD thousands)

For the year ended December 31,	**2016**	**2015**
Current taxes expense (recovery)		
Current year	$ 3	$ 171
Adjustment for prior years	-	14
	3	185

Deferred tax expense (recovery)		
Origination and reversal of temporary difference	(1,654)	(171)
Change in tax rate	-	(18)
Change in recognized deductible temporary differences	-	(323)
Adjustment for prior years	1,654	353
	-	(159)
Total income tax expense	$ 3	$ 26

The income tax expense differs from that expected by applying the combined federal, provincial and state income tax rate of 27% (2015 -26.01%) to income before income taxes for the following reasons:

(CAD thousands)

For the year ended December 31,	**2016**	**2015**
Loss before income taxes	$ (5,121)	$ (2,091)
Effective income tax expense (recovery) at statutory rate	(1,383)	(544)
Permanent differences	1	359
Adjustment from prior year filings	(194)	353
Non-taxable capital gains	-	-
Difference between current and future rate on temporary differences	-	(18)
Other	(94)	199
Change in unrecognized asset	1,667	(323)
Net provision for income taxes	$ 3	$ 26

(CAD thousands)

	December 31, 2016	**December 31, 2015**
Deferred tax balances		
Non-capital loss carry forwards	$ 10,752	$ 9,955

Property, plant and equipment	(3,577)	(3,355)
Unrecognized asset and other	-	-
Unrealized foreign exchange loss (gain)	(376)	(578)
Other	125	58
Capital leases	14	-
Lease obligations	-	21
Valuation allowance	(6,938)	(6,101)
Deferred tax asset (liability)	$ -	$ -

The Company has incurred cumulative non-capital losses for Canadian income tax purposes of approximately $9.9 million (2015 - $9.5 million) that are available to reduce Canadian taxable income in future years and expire commencing in 2029.

The Company's foreign subsidiaries have incurred cumulative non-capital losses for foreign income tax purposes of approximately USD$22 million (2015 - USD $14.5 million) that are available to reduce taxable income in future years. These losses expire between the years 2022 through 2032.

The deductible temporary difference does not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits they are from.

For the year ended December 31, 2016, $nil of deferred income tax recovery was recognized as compared to $nil in 2015.

13. Financial instruments

The Company's financial instruments included in the consolidated balance sheets are comprised of cash and cash equivalents, accounts receivable, finance leases receivable, accounts payable and accrued liabilities, obligations under finance lease, line of credit and long-term debt. The fair values of financial instruments included in the consolidated statement of financial position, except long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The carrying value of long-term debt approximates its fair value.

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Interest rate risk
- Foreign currency risk
- Liquidity risk

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

13.1. *Credit risk and customer concentration*

The Company assesses the credit worthiness of its customers on an ongoing basis and monitors the amounts and aging of outstanding accounts receivable, and when necessary, records an allowance for doubtful amounts. The following table summarizes the aging of the Company's accounts receivable:

(CAD thousands)

	December 31, 2016	December 31, 2015
Within 30 days	$ 717	$ 777
31 to 60 days	506	479
61 to 90 days	64	27
Over 90 days	699	662
Allowance for doubtful accounts	(524)	(540)
	$ 1,462	$ 1,405

For the year ended December 31, 2016, $5.5 million (December 31, 2015 - $7.4 million) of revenue was derived from eight (2015 – twelve) customers that represented 68% (2015 - 66%) of the Company revenue. As at December 31, 2016, $894 thousand (December 31, 2015 - $514 thousand) from these customers was included in accounts receivable.

13.2. *Interest rate risk*

As at December 31, 2016, 73% (December 31, 2015 – 73%) of the Company's outstanding long-term debt was subject to fixed rates of interest. The balance of the Company's outstanding long-term debt was exposed to fluctuations in interest rates.

For the year ended December 31, 2016, a 1% change in interest rates would have had the following impact on net loss and other comprehensive loss.

(CAD thousands)

	2016	2015
1% increase in interest rates	$ 22	$ 37
1% decrease in interest rates	$ (22)	$ (37)

13.3. *Foreign currency risk*

A portion of the Company's operations are denominated in United States dollars. The Company does not use derivative financial instruments to reduce its foreign currency exposure. Fluctuations in foreign exchange rates could negatively affect the results from operations. The Company does not have exposure to any highly inflationary foreign currencies.

For the year ended December 31, 2016, a 1% change in the value of foreign currencies would have had the following impact on net loss and other comprehensive loss.

(CAD thousands)

	2016	2015
1% increase in the value of the US dollar	$ 1	$ 1
1% decrease in the value of the US dollar	$ (1)	$ (1)

13.4. *Liquidity risk*

Liquidity risk is the exposure of the Company to the risk of being unable to meet its financial obligations as they come due. The Company manages liquidity risk by monitoring and reviewing actual and forecasted cash flows to ensure there are available cash resources to meet these needs.

The Company expects that cash and cash equivalents, and cash flow from operations, together with existing and available credit facilities, will be sufficient to fund its presently anticipated requirements for investments in working capital and capital assets.

The following maturity analysis shows the remaining contractual maturities for the Company's financial liabilities, including future lease payments:

(CAD thousands)

December 31, 2016	Within 1 year	1 to 5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,263	$ -	$ -
Income tax payable	80	-	-
Deferred revenue	44	-	-
Obligations under finance lease	30	20	
Loans and borrowings (Note 9)	2,022	2,765	483
	$ 3,439	$ 2,785	$ 483

(CAD thousands)

December 31, 2015	Within 1 year	1 to 5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,156	$ -	$ -
Income tax payable	173	-	-
Deferred revenue	60	-	-
Obligations under finance lease	28	50	-
Loans and borrowings (Note 9)	1,752	2,921	2,355
	$ 3,169	$ 2,971	$ 2,355

At December 31, 2016, the Company had $nil (December 31, 2015 -$2 million) available under its credit facility and had cash and cash equivalents of $5.7 million at December 31, 2016 (December 31, 2015 - $11.5 million).

14. Commitments

The Company has commitments under various operating lease agreements relating to premises and equipment aggregating approximately $511 thousand and $15 thousand, (2015 - $692 thousand and $30 thousand) respectively with future minimum payments as at December 31, 2016, as follows:

(CAD thousands)

2017	$	168
2018		160
2019		159
2020		39
	$	526

15. Capital Disclosures

The Company's objectives when managing capital are to exercise financial discipline, and to deliver positive returns to its shareholders. The Company may make future adjustments to its capital management strategy in light of changing economic conditions resulting from the challenges associated with operating in a cyclical, commodity price influenced industry.

The Company considers its capital structure to include shareholders' equity, operating lines of credit and long-term debt, net of cash, and cash equivalents. In order to maintain or adjust its capital structure, the Company may from time to time adjust its capital spending to manage the level of its borrowings, or may revise the terms of its operating lines of credit to support future growth initiatives. The Company may also consider additional long-term borrowings or equity financing.

(CAD thousands)

For the year ended December 31,		**2016**		**2015**
Long term debt	$	5,270	$	7,028
Shareholders' equity		31,590		36,901
(Cash + cash equivalents)		(5,707)		(11,524)
Total capitalization	$	31,153	$	32,405

16. Supplementary disclosures

Change in non-cash working capital balances

(CAD thousands)

For the year ended December 31,		**2016**		**2015**
Current assets				
Accounts receivable	$	1,504	$	(1,694)

Prepaid expenses	27	(23)
Current liabilities		
Accounts payable and accrued liabilities	169	160
Income taxes payable (recoverable)	(83)	160
Deferred revenue	(17)	9
Net change in non-cash working capital	$ 1,600	$ (1,388)
Changes in non-cash working capital relating to:		
Operating	1,130	(1,388)
Financing	470	-
	1,600	(1,388)

17. Expenses by nature

The Company presents certain expenses in the consolidated statement of net loss and comprehensive loss by function. For example freight associated with a job site would be allocated to operating expenses whereas freight relating to office equipment would go to selling, general and administrative. The following table presents those expenses by nature.

(CAD thousands)

For the year ended December 31,	**2016**	**2015**
Employee costs	$ 3,499	$ 3,336
Repairs and maintenance	1,227	1,573
Freight and consumables	487	104
Realized foreign exchange loss	11	208
Unrealized foreign exchange gain	146	(1,506)
Insurance	414	361
Professional services	189	397
Travel and promotion	323	346
Rent	171	61
Utilities and property taxes	225	230
Depreciation	4,608	5,506
Other	924	1,130
	12,224	11,746
Allocated to:		
Operating expenses	3,948	4,134

Depreciation	4,608	5,506
Selling, general and administrative	3,668	2,106
	$ 12,224	$ 11,746

18. Related party transactions

Compensation of key management personnel

Key management personnel compensation comprised the following.

(CAD thousands)

	note	**December 31, 2016**	**December 31, 2015**
Salaries and directors' fees		$ 1,167	$ 1,044
Termination payments		-	28
		$ 1,167	$ 1,072

There have been no other transactions with key management and officers during the year. No amounts were owing from or owed to officers and directors of the company.

19. Plan of Arrangement

On September 29, 2016, ESI entered into an agreement with Exploratus Ltd., a company which is incorporated and a reporting issuer in Manitoba ("Exploratus"), and its wholly owned subsidiary 1994687 Alberta Ltd. ("Spinco") amalgamated with ESI to form "New ESI". Upon amalgamating with Spinco by way of a Plan of Arrangement, one New ESI common share was issued in exchange for every 0.7514 of an ESI common share and New ESI common shares were issued in exchange for Spinco common shares on the basis of one New ESI common share for every 15.92 Exploratus common shares. New ESI shares received by Exploratus were distributed by exchange to Exploratus shareholders and a portion of the New ESI shares received by certain ESI shareholders comprising two Investment Limited Partnerships were distributed to their respective investors.

On completion of the transaction:

- The current shareholders of ESI own approximately 99.3% of New ESI; and
- New ESI is named "ESI Energy Services Inc.".

The shares of ESI Energy Services Inc. are listed for trading on the Canadian Securities Exchange ("CSE").

As Spinco is a non-operating company per IFRS 3 "Business Combinations", the Company was deemed the acquirer and the transaction was valued under IFRS 2, "Share-based Payment". IFRS 2 deals with transactions where an entity grants equity instruments but the value of the goods or services in return cannot be specifically identified. Since the fair value of the goods or services cannot be estimated, the fair value of the equity instruments granted is used to value the transaction. The fair value of this transaction is considered to be the percentage of ownership which the Exploratus shareholders have in the combined entity after the transaction.

This transaction was accounted for as a reverse take-over of Exploratus and, as Spinco has no assets or business operations, the continuing financial statements are those of the Company. Total transaction costs to the Company, excluding legal and regulatory costs, was the value of the ESI shares exchanged for shares of Spinco owned by Exploratus valued at $250,000 and $60,000 in cash to cover Exploratus' legal and

regulatory costs. The $250,000 value was agreed upon by Exploratus and ESI Energy Services Inc. 314,070 New ESI shares were issued to Exploratus and the value per share was agreed to be $0.795. This share based payment has been recognized as an expense with an offset to equity. Legal, regulatory and other related costs were expensed when the transaction closed in November 2016.

Existing ESI options were cancelled as part of the Exploratus transaction. A new Equity Incentive Plan was adopted by ESI directors on September 27, 2016, although no options, restricted share units, or other incentive securities were granted in 2016.

Existing ESI warrants (see note 11.1) became New ESI warrants on completion of the Exploratus transaction with exercise price and number of warrants adjusted by the same exchange ratio applicable to ESI common shares.

19.1. *Transaction Costs*

(CAD thousands)

Legal and regulatory costs	$	565
Equity settled share based payment made to Exploratus	$	250
	$	815

20. Subsequent Event

In March 2017, the Company entered into an agreement to sell its remaining fleet of 8 pipe layers to a third party for a cash price of $3,500,000. The transaction closed on March 17, 2017.