



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM  
FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2016.

**CANADIAN EQUIPMENT RENTALS CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)

(Stated in thousands of Canadian dollars)	<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current assets:		
Cash	5,317	3,327
Accounts receivable	3,539	5,626
Inventory	701	1,594
Income taxes recoverable	—	1,187
Prepaid expenses and deposits	900	945
Assets held for sale (notes 4, 12)	14,923	—
	<u>25,380</u>	<u>12,679</u>
Non-current assets:		
Property and equipment (note 4)	61,038	77,315
Intangibles and goodwill (note 5)	7,671	9,854
Deferred income taxes	5,125	—
	<u>73,834</u>	<u>87,169</u>
<b>Total assets</b>	<u>99,214</u>	<u>99,848</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	1,607	2,164
Dividends payable	—	728
Income tax payable	20	—
Current portion of long-term debt (note 6)	43,800	1,000
Current portion of finance leases	7	273
Liabilities held for sale (note 12)	1,468	—
	<u>46,902</u>	<u>4,165</u>
Non-current liabilities:		
Long-term debt (note 6)	—	30,500
Obligation under finance leases (note 4)	—	3,577
Note payable (note 7)	4,037	—
Deferred income taxes	—	339
	<u>4,037</u>	<u>34,416</u>
<b>Total liabilities</b>	<u>50,939</u>	<u>38,581</u>
Shareholders' equity		
Share capital (note 8)	107,935	102,610
Share purchase loans receivable	—	(22)
Contributed surplus	1,145	1,024
Deficit	(60,805)	(42,345)
	<u>48,275</u>	<u>61,267</u>
<b>Total liabilities and shareholders' equity</b>	<u>99,214</u>	<u>99,848</u>

*See accompanying notes to the Condensed Consolidated Interim Financial Statements*

CANADIAN EQUIPMENT RENTALS CORP.  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF (LOSS) INCOME AND  
COMPREHENSIVE (LOSS) INCOME  
(Unaudited)

(Stated in thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
<b>Revenues</b>	<b>4,198</b>	<b>6,492</b>	<b>13,105</b>	<b>26,968</b>
<b>Direct expenses</b>				
Direct operating costs	2,312	2,636	6,113	11,927
Cost of sales of equipment, fuel and parts	127	25	813	1,459
Depreciation of equipment (note 4)	8,979	2,309	16,324	7,192
	11,418	4,970	23,250	20,578
<b>Gross margin</b>	<b>(7,220)</b>	<b>1,522</b>	<b>(10,145)</b>	<b>6,390</b>
<b>Operating expenses</b>				
General and administrative	2,488	2,035	7,603	5,912
Depreciation of other property and equipment	101	64	297	174
Amortization of intangible assets	165	357	495	1,070
Impairment of property and equipment (note 4)	2,466	—	7,875	—
Impairment of intangibles and goodwill (note 5)	—	12,547	—	12,547
Business acquisition expenses (note 3)	49	21	471	45
	5,269	15,024	16,741	19,748
<b>Other expenses</b>				
Finance costs (note 10)	463	286	1,476	969
Purchase gain (note 3)	—	—	(2,664)	—
Other gain (note 4)	—	—	(766)	—
	463	286	(1,954)	969
<b>Loss before income taxes</b>	<b>(12,952)</b>	<b>(13,788)</b>	<b>(24,932)</b>	<b>(14,327)</b>
<b>Income taxes (recovery)</b>				
Current (recovery) expense	28	(88)	20	—
Deferred (recovery) expense	(3,397)	(674)	(6,580)	(805)
	(3,369)	(762)	(6,560)	(805)
<b>Net loss and comprehensive loss from continuing operations</b>	<b>(9,583)</b>	<b>(13,026)</b>	<b>(18,372)</b>	<b>(13,522)</b>
Net income (loss) from discontinued operations, net of income tax (note 12)	—	387	(88)	160
<b>Net loss and comprehensive loss</b>	<b>(9,583)</b>	<b>(12,639)</b>	<b>(18,460)</b>	<b>(13,362)</b>
<b>Basic and diluted loss per share</b>				
From continuing operations	(0.23)	(0.36)	(0.46)	(0.37)
From discontinued operation	0.00	0.01	(0.00)	0.00
<b>Weighted average number of shares outstanding</b>				
Basic	41,199,931	36,346,282	40,055,280	36,294,353
Diluted	41,199,931	36,346,282	40,055,280	36,294,353

See accompanying notes to the Condensed Consolidated Interim Financial Statements

CANADIAN EQUIPMENT RENTALS CORP.  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW  
(Unaudited)

	Nine months ended September 30	
(Stated in thousands of Canadian dollars)	2016	2015
<b>Cash provided by (used in):</b>		
<b>Operating</b>		
Net loss from continuing operations	(18,372)	(13,522)
Depreciation of property and equipment (note 4)	8,504	7,535
Loss (gain) on disposal of property and equipment (note 4)	8,118	(169)
Amortization of intangible assets (note 4)	495	1,070
Impairment of property and equipment (note 4)	7,875	—
Impairment of intangibles and goodwill (note 5)	—	12,547
Purchase gain (note 3)	(2,664)	—
Other gain (note 4)	(766)	—
Stock based compensation (note 9)	121	113
Income taxes recovered	1,171	—
Deferred income taxes	(6,580)	(805)
	<u>(2,098)</u>	<u>6,769</u>
Changes in non-cash working capital	3,211	3,914
Cash flow from continuing operating activities	1,113	10,683
Cash flow from discontinued operating activities	199	1,819
<b>Cash flow from operating activities</b>	<b><u>1,312</u></b>	<b><u>12,502</u></b>
<b>Investing</b>		
Change in non-cash working capital related to investing activities	207	(481)
Business acquisition (note 3)	(12,789)	—
Purchase of property and equipment (note 4)	(1,095)	(3,248)
Proceeds from sale of property and equipment (note 4)	3,803	911
Proceeds from sale of assets held for sale (note 4)	2,668	—
Cash flow used by continuing investing activities	(7,206)	(2,818)
Cash flow used by discontinued investing activities	(3,438)	(1,064)
<b>Cash flow used by investing activities</b>	<b><u>(10,644)</u></b>	<b><u>(3,882)</u></b>
<b>Financing</b>		
Share issue costs	(56)	—
Dividends paid	(688)	(6,251)
Share purchased loan payments received	—	34
Proceeds from long-term debt	12,900	—
Repayment of long-term debt	(600)	(747)
Repayment of obligations under finance leases	(120)	(154)
Cash flow from (used by) continuing financing activities	11,436	(7,118)
Cash flow used by discontinued financing activities	(114)	(75)
<b>Cash flow from (used by) financing activities</b>	<b><u>11,322</u></b>	<b><u>(7,193)</u></b>
Net change in cash in the period	1,990	1,427
Cash, beginning of year	3,327	1,603
<b>Cash, end of period</b>	<b><u>5,317</u></b>	<b><u>3,030</u></b>

See accompanying notes to the Condensed Consolidated Interim Financial Statements

CANADIAN EQUIPMENT RENTALS CORP.  
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS'  
EQUITY  
(Unaudited)

(Stated in thousands of Canadian dollars)	Common shares	Preferred shares	Share purchase loans	Contributed surplus	Deficit	Total
<b>Balance – December 31, 2014</b>	102,350	—	(93)	873	(6,485)	96,645
Stock based compensation	—	—	—	151	—	151
Share purchase loan	—	—	34	—	—	34
Shares purchase loan cancellation	(37)	—	37	—	—	—
Dividends reinvested	297	—	—	—	—	297
Dividends declared	—	—	—	—	(5,808)	(5,808)
Comprehensive (loss) income	—	—	—	—	(30,052)	(30,052)
<b>Balance – December 31, 2015</b>	102,610	—	(22)	1,024	(42,345)	61,267
Stock based compensation	—	—	—	121	—	121
Share purchase loan cancellation	(22)	—	22	—	—	—
Shares issued on business acquisition (note 3)	2,484	2,864	—	—	—	5,348
Shares issue costs net of deferred tax benefit of \$15	(41)	—	—	—	—	(41)
Dividends reinvested	40	—	—	—	—	40
Comprehensive (loss) income	—	—	—	—	(18,460)	(18,460)
<b>Balance – September 30, 2016</b>	105,071	2,864	—	1,145	(60,805)	48,275

*See accompanying notes to the Condensed Consolidated Interim Financial Statements*

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

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**1. CORPORATE INFORMATION:**

Canadian Equipment Rentals Corp. (formerly CERF Incorporated) (the “Company” or “Canadian Equipment Rentals”) was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the “Partnership”), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005. On June 22, 2016, the Company received shareholder approval for the name change from CERF Incorporated to Canadian Equipment Rentals Corp.

The Company is engaged in equipment rentals, equipment sales and service, and waste management services. Canadian Equipment Rentals is listed on the TSX Venture Exchange under the symbol CFL.

**2. BASIS OF PREPARATION:**

***Statement of compliance***

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full financial disclosure. The disclosures provided below are incremental to those included in the annual financial statements and certain disclosures, which are normally required to be included in the notes to annual financial statements, have been condensed or omitted. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2015. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2015.

These consolidated financial statements were approved by the Board of Directors on November 23, 2016 and are presented in Canadian dollars, which is the Company’s functional currency.

***Going concern***

These consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will continue normal operations for the foreseeable future. For the quarter ended September 30, 2016, the Company was in breach of its financial leverage and interest coverage covenants included in the April 28, 2016 Third Amending Credit Agreement (the “Agreement”). The leverage covenant measures the Company’s financial leverage (long term senior debt less cash) as a multiple of its EBITDA. Management forecasts the leverage covenant breaches will persist through the fourth quarter of 2016. The interest coverage covenant, which measures the Company’s ability to service the debt will persist through 2017.

A breach constitutes an event of default under the Agreement, which provides the lenders several alternatives including a waiver of the breach, an amendment to the Agreement to reset the covenant or a requirement to repay the borrowings. The Company is exploring alternative external financing in the event the lenders elect to call the loan.

The Company is currently working with its senior lenders and on November 24, 2016 signed a Fourth Amending Agreement which provides forbearance so as to allow the Company sufficient time to negotiate and

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
(Unaudited)  
**IN THOUSANDS OF CANADIAN DOLLARS**

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arrange a longer term amending agreement. This amending agreement expires on December 15, 2016. Based on the discussions to date, the nature of the breach, and the Company's current and forecasted financial condition, management expects to have an acceptable remedy in place during the first quarter of 2017.

However, since the lenders have the right to, and may, after the expiration of the cure period, demand repayment, in the absence of an amended (or waived) covenant, or placement of alternative financing, the breach gives rise to a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

**3. BUSINESS ACQUISITION**

**a) Zedcor Oilfield Rentals Ltd.**

On February 2, 2016, the Company acquired all the outstanding common and preferred shares of Zedcor Oilfield Rentals Ltd. ("Zedcor"). The purchase price consisted of the issuance by the Company of 3,049,968 common shares and 4,400,000 preferred shares both at a deemed price of \$0.70 per share, the payout of approximately \$12,789 in debt and the assumption of a \$5,000 subordinated vendor take-back note.

The purchase price of \$21,190 consisted of \$1,799 of (3,049,968) Canadian Equipment Rentals common shares issued at the market closing price of \$0.59 per share on the acquisition date and \$2,864 based on the issuance of 4,400,000 Canadian Equipment Rentals preferred shares with a stated value of \$0.70 per share, fair valued at \$2,864, plus the payout of \$12,789 in debt and the assumption of a \$5,000 subordinated vendor take back note fair valued at \$3,738. The purchase price was allocated to the net assets acquired based on their estimated fair values as follows:

Fair value of acquired net assets:	
Working capital	1,997
Deferred tax liability	(957)
Property and equipment	22,474
	23,514
Financed as follows:	
Common shares issued	1,799
Preferred shares issued	2,864
Note payable	3,738
Debt assumed	12,789
	21,190
Purchase gain	2,324

The Company recorded a purchase gain for the excess of the provisional estimated fair value of the acquired net assets over the purchase price. Before recording the provisional estimates of fair values and concluding that a purchase gain was appropriate, a rigorous assessment of all identified assets acquired and liabilities assumed at the acquisition date was completed to determine whether any additional assets or liabilities

**CANADIAN EQUIPMENT RENTALS CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
(Unaudited)  
**IN THOUSANDS OF CANADIAN DOLLARS**

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should be recognized. All procedures in determining the provisional measurement of identified assets acquired and liabilities assumed at the acquisition date were appropriate and in accordance with IFRS 3 Business Combinations. It was concluded the measurements appropriately reflect the consideration of all available information at the acquisition date, and the purchase gain is appropriate considering the nature and circumstances of the acquisition. Such circumstances included Zedcor's relatively new asset base and its expanded geographic footprint.

The Company incurred costs of \$423 related to the Zedcor acquisition. These costs mainly relate to due diligence, legal fees and tax advisory fees. These costs have been included in business acquisition costs in the consolidated statements of income and loss.

**b) Summit Star Energy Services Inc.**

On May 6, 2016, the Company completed the acquisition of all the assets used in the business of Summit Star Energy Services Inc. ("Summit Star"). Summit Star's business involved the rental of light towers and electric pumps to the oil and natural gas industry in Western Canada.

The Company issued 1,713,318 common shares for the assets of Summit Star, which when multiplied by the volume weighted average price of the common shares of the Company over the 30 preceding trading days resulted in a stated purchase price of \$750.

Under IFRS 3 Business Combinations, the market closing price of \$0.40 per share on the acquisition date was used to value the 1,713,318 common shares, resulting in the recorded purchase price of \$685. The purchase price was allocated to the assets acquired based on their estimated fair values as follows:

Fair value of acquired net assets:	
Property and equipment	1,025
Financed as follows:	
Common shares issued	685
Purchase gain	340

The Company recorded a purchase gain for the excess of the provisional estimated fair value of the acquired net assets over the purchase price. Before recording the provisional estimates of fair values and concluding that a purchase gain was appropriate, a rigorous assessment of all identified assets acquired at the acquisition date was completed to determine whether any additional assets or liabilities should be recognized. All procedures in determining the provisional measurement of identified assets acquired at the acquisition date were appropriate and in accordance with IFRS 3 Business Combinations. It was concluded the measurements appropriately reflect the consideration of all available information at the acquisition date, and the purchase gain is appropriate considering the nature and circumstances of the acquisition. Such circumstances included Summit Star's relatively new asset base and technologically advanced equipment.



CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

The Company incurred costs of \$48 related to the Summit Star acquisition. These costs mainly relate to due diligence, legal fees and tax advisory fees. These costs have been included in business acquisition costs in the consolidated statements of income and loss.

The purchase price accounting has not been finalized at the time of the release of these financial statements and is subject to normal valuation adjustments

4. **PROPERTY AND EQUIPMENT:**

Cost	Buildings	Automotive		Office	Leasehold improvements	Total
		Rental equipment	& other equipment	furniture & equipment		
<b>At December 31, 2014</b>	4,801	87,247	13,175	1,219	290	106,732
Additions	—	4,135	1,892	796	61	6,884
Disposals	—	(2,770)	(1,209)	(8)	(18)	(4,005)
<b>At December 31, 2015</b>	4,801	88,612	13,858	2,007	333	109,611
Additions	—	2,181	3,616	220	—	6,017
Business acquisition	—	22,947	515	37	—	23,499
Assets held for sale	—	(27,014)	(15,246)	(143)	(23)	(42,426)
Disposals	—	(20,622)	(852)	—	—	(21,474)
Derecognition	(4,801)	—	—	—	—	(4,801)
<b>At September 30, 2016</b>	—	66,104	1,891	2,121	310	70,426

Accumulated depreciation	Buildings	Automotive		Office	Leasehold improvements	Total
		Rental equipment	& other equipment	furniture & equipment		
<b>At December 31, 2014</b>	1,486	14,652	6,760	494	150	23,542
Depreciation	274	9,056	1,801	271	37	11,439
Elimination on disposal	—	(1,744)	(926)	(3)	(12)	(2,685)
<b>At December 31, 2015</b>	1,760	21,964	7,635	762	175	32,296
Depreciation	137	7,745	1,601	288	26	9,797
Assets held for sale	—	(13,351)	(7,774)	(113)	(17)	(21,255)
Elimination on disposals	—	(8,956)	(597)	—	—	(9,553)
Derecognition	(1,897)	—	—	—	—	(1,897)
<b>At September 30, 2016</b>	—	7,402	865	937	184	9,388

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
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IN THOUSANDS OF CANADIAN DOLLARS

Net Book Value	Buildings	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
<b>At December 31, 2015</b>	3,041	66,648	6,223	1,245	158	77,315
<b>At September 30, 2016</b>	—	58,702	1,026	1,184	126	61,038

Depreciation of assets subject to finance lease obligations in the nine months ended September 30, 2016 was \$123 (2015 - \$257).

During the nine months ended September 30, 2016, the Company sold assets with a net book value of \$11,921 for proceeds of \$3,850, resulting in a loss of \$8,071 (2015 - gain of \$231) which has been included in depreciation of equipment in comprehensive income.

At June 30, 2016, the Company and a landlord cancelled an existing building lease for the General Rentals segment and entered into a new lease agreement for the same premises. The modified lease terms resulted in reclassifying the building lease from a finance lease to an operating lease. The lease modification is subject to the derecognition provisions under IAS 39 and requires derecognizing the leased asset and the finance lease liability. Prior to their derecognitions, the net book value of the building was \$2,904 and the finance lease obligation was \$3,670, resulting in a gain of \$766.

#### **Assets Held for Sale**

The Company decided to sell certain under-utilized and obsolete rental assets in the Energy Services segment. At March 31, 2016, the Company classified such equipment with a net realizable value of \$3.7 million as assets held for sale. An impairment of \$5.2 million was recognized prior to reclassification from property and equipment to assets held for sale and an additional impairment of \$0.3 million was recognized in the subsequent quarters ended June 30 and September 30, 2016. The Company sold \$2.7 million of these assets year-to-date.

At September 30, 2016, the Company classified additional under-utilized equipment with a net realizable value of \$2.4 million as assets held for sale. An impairment of \$2.4 million was recognized for these assets in the period ended September 30, 2016.

The Company continues to actively market these assets to potential buyers and expects the sale of these assets to be completed within one year. See note 12 for detail on assets held for sale through discontinued operations.

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

5. INTANGIBLES AND GOODWILL:

Cost	Goodwill	Long term Contracts	Customer Relation- ships	Non- compet agreement	Brand names & other	Total
<b>At December 31, 2014</b>	<b>31,304</b>	<b>573</b>	<b>5,644</b>	<b>742</b>	<b>44</b>	<b>38,307</b>
Amortization	—	(423)	(1,378)	(95)	(28)	(1,924)
Impairment	(24,045)	—	(1,845)	(639)	—	(26,529)
<b>At December 31, 2015</b>	<b>7,259</b>	<b>150</b>	<b>2,421</b>	<b>8</b>	<b>16</b>	<b>9,854</b>
Amortization	—	(150)	(496)	(8)	(12)	(666)
Assets held for sale	(1,513)	—	—	—	(4)	(1,517)
<b>At September 30, 2016</b>	<b>5,746</b>	<b>—</b>	<b>1,925</b>	<b>—</b>	<b>—</b>	<b>7,671</b>

6. CREDIT FACILITIES:

	Effective interest rate	Final maturity	Facility maximum	Outstanding as at Sept. 30, 2016	Outstanding as at December 31, 2015
Revolving operating facility	5.92%	2018	48,500	38,000	27,500
Revolving capital expenditure facility	5.93%	2018	6,500	5,800	4,000
			55,000	43,800	31,500
Current portion				(43,800)	(1,000)
Long term debt				—	30,500

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

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

The Third Amending Agreement includes a \$10.0 million reduction in the authorized amount of the total facility from \$65.0 million to \$55.0 million. The resulting authorized credit facility is now comprised of a \$48.5 million revolving Operating Facility and a \$6.5 million revolving Capex Facility.

Interest payable on all loans drawn under the credit facilities will range from bank prime rate plus 100 bps to bank prime rate plus 400 bps depending on the Company's Debt to EBITDA ratio. The Credit facilities may also

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
(Unaudited)  
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---

be financed through Bankers' Acceptances at the Company's option with stamping fees of between 200 bps to 500 bps depending on the Company's Debt to EBITDA ratio. Under the terms of the Third Amending Credit Agreement, the Company was not in compliance of its covenants as at September 30, 2016 and therefore has reclassified all debt held with the creditors to current. Management is in discussion with the creditors to renegotiate the covenants and lending agreement (see Note 2).

	<b>Requirement</b>	<b>Actual at September 30, 2016</b>
Debt to EBITDA*	Maximum of 5.50 times EBITDA	9.02 times EBITDA
Interest Coverage Ratio**	Minimum of 2.75 times adjusted cash flow	1.79 times adjusted cash flow

\* EBITDA is a defined bank term and includes EBITDA of the trailing twelve months plus the pre-acquisition EBITDA of business acquisitions in the trailing twelve month period, and adjustments for acquisition transaction costs and severances incurred.

\*\* Interest Coverage ratio is calculated as finance costs for the trailing twelve months divided into the trailing twelve month adjusted cash flow which is defined as EBITDA less taxes paid and dividends paid in the trailing twelve months.

For the quarter ended September 30, 2016, the Company was in breach of its financial leverage and interest coverage covenants included in the April 28, 2016 Third Amending Credit Agreement. The leverage covenant measures the Company's financial leverage (long term senior debt less cash) as a multiple of its EBITDA. Management forecasts the leverage covenant breaches will persist through the fourth quarter of 2016. The interest coverage covenant, which measures the Company's ability to service the debt, is forecasted to remain in breach through 2017.

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

On November 24, 2016, the Company signed a Fourth Amending Agreement in which the lender agrees to forbear from demanding repayment or enforcing its security under the Agreement. This will allow for the Company to provide the lender with a go forward plan that will show reduced debt, improved leverage ratios, and if needed, alternative financing solutions. Assuming the plan is acceptable to the lender, it is then expected that a longer amending agreement will be executed which will provide the Company time to execute on the plan. Based on the discussions to date, and the Company's current and forecasted financial condition, management expects to have an acceptable amendment in place during the first quarter of 2017. The Company is concurrently exploring alternative external financing in the event the lenders elect to call the loan upon expiry of the Fourth Amending Agreement.

Under the terms of the amending agreement the authorized amount of the revolving facility is reduced to \$46.1 million at November 24, 2016, while the authorized amount of the revolving capex facility remains at \$6.5 million. The authorized amount of both facilities will be reduced by amounts equal to the net proceeds realized from the disposition of assets, with reductions first to the capex facility and then to the operating

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

---

facility. Interest payable on loans drawn under the Fourth Amending Agreement will be bank prime rate plus 600 bps.

Despite the foregoing, since the lenders have the right to, and may, after the expiration of the Fourth Amending Agreement, demand repayment, the current situation gives rise to a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

**7. NOTE PAYABLE**

On February 2, 2016, the Company issued a \$5,000,000 Canadian dollar vendor take-back note as part of the Zedcor acquisition purchase price (see Note 3). The vendor take-back note matures five years from the issue date at its nominal value and bears interest at five per cent per annum, accruing daily from the issue date. Interest is payable annually. The vendor take-back note is unsecured and subordinated to the Credit Facilities and interest payments are subject to certain restrictions in the Credit Facility.

As at September 30, 2016, the note payable had a carrying value of \$4,037.

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Fair value of note payable:	
Note payable at 5.0% due February 2, 2021	5,000
Note payable discount	(1,262)
Fair value of note payable as at February 2, 2016	3,738
Interest payable	167
Accretion of note payable discount	132
<b>Balance, September 30, 2016</b>	<b>4,037</b>

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CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

8. SHARE CAPITAL

Common shares issued and fully paid:	Number of shares	\$
<b>Balance, December 31, 2014</b>	<b>36,213,917</b>	<b>102,350</b>
Issuance of common shares under dividend reinvestment program	182,360	297
Shares cancelled on forfeiture of share purchase loan	(15,817)	(37)
<b>Balance, December 31, 2015</b>	<b>36,380,460</b>	<b>102,610</b>
Issuance of shares under dividend reinvestment program	65,370	40
Shares cancelled on forfeiture of share purchase loan	(9,185)	(22)
Issued as consideration in a business acquisition	3,049,968	1,799
Issued as consideration in an asset acquisition	1,713,318	685
Share issue costs, net of deferred tax benefit of \$15	—	(41)
<b>Balance, September 30, 2016</b>	<b>41,199,931</b>	<b>105,071</b>
<b>Preferred shares issued:</b>		
<b>Balance, December 31, 2015</b>	—	—
Issued as consideration in a business acquisition	4,400,000	2,864
<b>Balance, September 30, 2016</b>	<b>4,400,000</b>	<b>2,864</b>

On February 2, 2016, the Company issued 4,400,000 preferred shares at a stated value of \$0.70 per share as part of the Zedcor acquisition (see Note 3). The fair value of the preferred shares at the acquisition date was estimated to be \$2,864. The preferred shares valuation was determined using a Monte Carlo simulation and Longstaff-Schwartz algorithm. The assumptions used in the valuation include the historical stock price of the Company, the historical volatility of the Company stock price and a Company credit rating of B-.

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

After January 31, 2019, the Preferred Shares may be converted by the holder thereof into the Company's Common Shares at a conversion price of \$0.70 per share, subject to the right of Company to redeem the Preferred Shares prior to such conversion for a cash amount per share equal to the lesser of: (i) \$2.00; and (ii) the current market price of the Common Shares.

**CANADIAN EQUIPMENT RENTALS CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
(Unaudited)  
**IN THOUSANDS OF CANADIAN DOLLARS**

---

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

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

**9. STOCK OPTIONS:**

Changes in outstanding and exercisable employee options are as follows:

	<b>Number of options</b>	<b>Vested</b>	<b>Exercise price</b>	<b>Remaining contractual life in years</b>	<b>Weighted average exercise price</b>
<b>Options as at December 31, 2015</b>	<b>1,940,500</b>	<b>705,881</b>	—	<b>3.66</b>	<b>2.50</b>
Options cancelled	(1,992,000)	(430,215)	1.93	—	—
Options granted February 5, 2016	1,985,000	—	0.50	4.35	0.50
Options granted May 31, 2016	900,000	—	0.48	4.66	0.48
<b>Options as at September 30, 2016</b>	<b>2,833,500</b>	<b>275,666</b>	—	<b>4.14</b>	<b>0.86</b>

During the nine months ended September 30, 2016, \$121 of stock based compensation related to these stock options was recorded in general and administrative expenses (2015 - \$113).

**10. FINANCE COSTS:**

Finance costs are comprised of the following:

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>Sept. 30, 2016</b>	<b>Sept. 30, 2015</b>	<b>Sept. 30, 2016</b>	<b>Sept. 30, 2015</b>
Bank charges and interest	8	(6)	35	72
Interest on long term debt	439	227	1,086	590
Interest on finance leases	1	107	205	323
Loan syndication fees	15	(36)	150	—
Interest on long term receivable	—	(6)	—	(16)
	<b>463</b>	<b>286</b>	<b>1,476</b>	<b>969</b>

**11. OPERATING SEGMENTS:**

The Company structures its operations in three operating and reportable segments: (i) General Rentals; (ii) Energy Services; and (iii) Waste Management, based on the way that management organizes the Company's businesses for making operating decisions and assessing performance.

**CANADIAN EQUIPMENT RENTALS CORP.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**  
(Unaudited)  
**IN THOUSANDS OF CANADIAN DOLLARS**

The General Rentals segment includes the operations of 4-Way Equipment Rentals Corp. The Energy Services segment includes the aggregate operations of TRAC Energy Services Ltd. and Zedcor Oilfield Rentals Ltd., which now operates as Zedcor Energy Services. The Waste Management segment includes the operations of MCL Waste Systems & Environmental Inc., which is presented as a Discontinued Operation (see Note 12).

Information regarding the results of the segments is included below. Performance is measured based on segment profit as included in internal management reports. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit is calculated as revenue less operating expenses, administrative expenses, and depreciation expense.

The following is a summary of the Company's results by segment for the three and nine months ended September 30, 2016 and 2015:

	<b>Three months ended September 30, 2016</b>				
	<b>General Rentals</b>	<b>Energy Services</b>	<b>Discontinued Operation</b>	<b>Corporate</b>	<b>Total</b>
Total segment revenue	1,823	2,375	3,810	—	8,008
Segment profit (loss)	(869)	(8,001)	269	(988)	(9,589)
Depreciation of property and equipment	852	8,215	440	14	9,521
Amortization of intangible assets	—	165	4	—	169
Impairment of property and equipment	74	2,392	—	—	2,466
Finance costs	185	277	282	1	745
Income taxes expense (recovery)	(320)	(3,085)	(17)	36	(3,386)
Additions to property and equipment	203	469	49	—	721

	<b>Three months ended September 30, 2015</b>				
	<b>General Rentals</b>	<b>Energy Services</b>	<b>Discontinued Operation</b>	<b>Corporate</b>	<b>Total</b>
Total segment revenue	3,538	2,954	4,194	—	10,686
Segment profit (loss)	283	(214)	778	(667)	180
Depreciation of property and equipment	863	1,501	345	9	2,718
Amortization of intangible assets	—	357	123	—	480
Impairment of goodwill & intangibles	—	12,547	—	—	12,547
Finance costs	257	91	140	(62)	426
Income taxes expense (recovery)	36	(683)	126	(115)	(636)
Additions to property and equipment	66	227	398	2	693



CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

Nine months ended September 30, 2016	General	Energy	Discontinued	Corporate	Total
	Rentals	Services	Operation		
Total segment revenue	5,950	7,155	10,516	—	23,621
Segment profit (loss)	(2,107)	(13,308)	717	(3,101)	(17,799)
Depreciation of property and equipment	2,460	14,124	1,247	37	17,868
Amortization of intangible assets	—	495	171	—	666
Impairment of property and equipment	74	7,801	—	—	7,875
Finance costs	757	719	683	—	2,159
Income taxes expense (recovery)	(681)	(5,938)	(49)	59	(6,609)
Additions to property and equipment	640	1,078	3,484	92	5,294

Nine months ended September 30, 2015	General	Energy	Discontinued	Corporate	Total
	Rentals	Services	Operation		
Total segment revenue	11,957	15,011	10,671	—	37,639
Segment profit (loss)	1,360	1,165	921	(2,266)	1,180
Depreciation of property and equipment	2,753	4,593	1,039	20	8,405
Amortization of intangible assets	—	1,070	385	—	1,455
Impairment of goodwill & intangibles	—	12,547	—	—	12,547
Finance costs	690	278	325	1	1,294
Income taxes expense (recovery)	73	(887)	51	9	(754)
Additions to property and equipment	1,022	2,165	1,286	61	4,534

Goodwill	General	Energy	Discontinued	Corporate	Total
	Rentals	Services	Operation		
As at September 30, 2016	—	5,746	—	—	5,746
As at December 31, 2015	—	5,746	1,513	—	7,259

Total assets and liabilities of the reportable segments are as follows:

As at September 30, 2016	General	Energy	Discontinued	Corporate	Total
	Rentals	Services	Operation		
Total assets	15,198	69,556	13,846	614	99,214
Total liabilities	396	788	1,468	48,287	50,939

As at December 31, 2015	General	Energy	Discontinued	Corporate	Total
	Rentals	Services	Operation		
Total assets	23,748	66,026	10,079	(5)	99,848
Total liabilities	5,508	(103)	639	32,537	38,581

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

A reconciliation of segment profit to income before taxes is as follows:

	Three months ended		Nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Segment profit (loss)	(9,589)	180	(17,799)	1,180
Deduct:				
Discontinued operation segment profit	269	778	717	921
Finance costs	463	286	1,476	969
Amortization of intangibles	165	357	495	1,070
Impairment of property and equipment	2,466	—	7,875	—
Impairment of goodwill & intangibles	—	12,547	—	12,547
Purchase gain	—	—	(2,664)	—
Other gain	—	—	(766)	—
Income (loss) before taxes	(12,952)	(13,788)	(24,932)	(14,327)

**12. DISCONTINUED OPERATION:**

On November 17, 2016, the Company executed a definitive share purchase agreement to sell its Waste Management operating segment and wholly owned subsidiary, MCL Waste Systems & Environmental Inc. The Waste Management segment was not previously classified as held-for-sale or as a discontinued operation. The comparative condensed consolidated interim statements of income or loss have been restated to show the discontinued operation separately from continuing operations.

(Stated in thousands of Canadian dollars)	Three months ended		Nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
<b>Revenues</b>	<b>3,810</b>	<b>4,194</b>	<b>10,516</b>	<b>10,671</b>
<b>Direct expenses</b>				
Direct operating costs	2,772	2,877	7,521	7,977
Depreciation of equipment	436	340	1,233	1,022
	<b>3,208</b>	<b>3,217</b>	<b>8,754</b>	<b>8,999</b>
<b>Gross margin</b>	<b>602</b>	<b>977</b>	<b>1,762</b>	<b>1,672</b>
<b>Operating expenses</b>				
General and administrative	329	196	1,031	734
Depreciation of other property and equipment	4	5	14	17
Amortization of intangible assets	4	123	171	385
	<b>337</b>	<b>324</b>	<b>1,216</b>	<b>1,136</b>
Finance costs	282	140	683	325
<b>Income (loss) before income taxes</b>	<b>(17)</b>	<b>513</b>	<b>(137)</b>	<b>211</b>
Deferred (recovery) expense	(17)	126	(49)	51
<b>Net income (loss) from discontinued operation</b>	<b>—</b>	<b>387</b>	<b>(88)</b>	<b>160</b>

CANADIAN EQUIPMENT RENTALS CORP.  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
(Unaudited)  
IN THOUSANDS OF CANADIAN DOLLARS

---

**Net income (loss) per share from discontinued operation**

Basic	0.00	0.01	(0.00)	0.00
Diluted	0.00	0.01	(0.00)	0.00

Finance costs for the discontinued operation represents the amount of interest imputed on the value to be received upon disposition of MCL Waste Systems & Environmental Inc.

As at September 30, 2016, the discontinued operation comprised of \$11,804 in assets and \$1,468 in liabilities. The Company classified the discontinued operation assets and liabilities as assets held for sale and liabilities held for sale.

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Property and equipment	7,508
Accounts receivable	2,453
Prepaid expenses and deposits	89
Income taxes recoverable	15
Intangibles and goodwill	1,517
Deferred income taxes	222
Accounts payable and accrued liabilities	(815)
Obligation under finance leases	(653)
	<b>10,336</b>

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**13. SUBSEQUENT EVENT:**

On November 17, 2016, the Company announced its intention to sell its Waste Management operating segment and wholly owned subsidiary, MCL Waste Systems & Environmental Inc., to a private Canadian waste management and recycling services company. The transaction still requires approval by the regulatory authorities. The expected close date of the transaction is December 1, 2016.