Canadian Equipment Rentals Corp. Announces 2016 Year End Results

CALGARY, ALBERTA – April 25, 2017: Canadian Equipment Rentals Corp. (the "Company") (TSX VENTURE: CFL) today announced its financial and operating results for the year ended December 31, 2016.

Highlights

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

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

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

[1] *Adjusted for severances and business acquisition costs*

[2] *See Financial Measures Reconciliations below*

SELECT FINANCIAL RESULTS

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

- On January 31, 2017, the Company announced that it had entered into an asset purchase agreement with Cooper Rentals Canada Inc. to sell all the assets of 4-Way Equipment Rentals. The transaction closed on February 9, 2017. Net proceeds were used to pay down senior debt. As at December 31, 2016 the assets and liabilities related to the sale were classified as held for sale and an impairment of $3.9 million was recognized.
- Both the Waste Management and General Rentals segments were classified as discontinued operations as at December 31, 2016. As a result, their financial results are reported separately from continuing operations on the statement of comprehensive income. The comparative statements of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.
- Revenues for the quarter ended December 31, 2016 increased by $1.0 million or 42% from $2.4 million to $3.4 million compared to the similar quarter in 2015. This is attributable to the acquisition of Zedcor Oilfield Rentals Ltd. in the first quarter of 2016, along with an increase in utilization rates quarter over quarter.
- Net loss for the quarter ended December 31, 2016 decreased by $12.9 million from a loss of $16.0 million to a loss of $3.1 million compared to the similar quarter in 2015. Of the $16.0 million loss in the fourth quarter of 2015, $14.0 million is a result of goodwill impairment recognized in the Energy Services business due to significant decline in revenues from that segment.
- Adjusted EBITDA for the quarter ended December 31, 2016 decreased by $454,000 or 47% from $959,000 to $505,000 compared to the similar quarter in 2015. This decrease is a result of increased general and administrative costs due to the acquisition of Zedcor Oilfield Rentals Ltd.
- For the year ended December 31, 2016, revenues decreased by $6.8 million or 39% from $17.4 million to $10.6 million compared to the year ended December 31, 2015. In direct relation, Adjusted EBITDA decreased by $8.6 million from $10.9 million to $2.3 million. Although commodity prices started to improve slightly in the latter half of the year, the low crude oil and natural gas price environment continues to have a negative impact on the oil and gas sector and demand for rental equipment. The Energy Services segment continued to see historically low rental rates in 2016.
- During the year the Company decided to sell certain under-utilized and obsolete rental assets in both the General Rentals and Energy Services segment. An impairment of $5.6 million was recognized in the first quarter and an additional impairment of $2.4 million was recognized in the third quarter. As at December 31, 2016 all under-utilized equipment held for sale had been sold.
- For the both the quarter ended September 30, 2016 and December 31, 2016, the Company was in breach of its financial leverage and interest coverage covenants as defined in the April 28, 2016 Third Amending Credit Agreement, which resulted in a default of the senior credit covenants. See further details in Liquidity and Capital Resources section below.

SELECT OPERATING RESULTS

Energy Services Division

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

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

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

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

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

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

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

General Rentals Division

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

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

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

Waste Management Division

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

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited – in $000s)	Dec 31 2016	Sept 30 2016	June 30 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015
Revenue	3,444	2,374	1,469	3,311	2,426	2,954	2,384	9,673

Net income (loss) from continuing operations	(3,106)	(8,680)	(4,683)	(3,148)	(16,032)	(12,893)	(1,387)	1,150
Net income (loss) from discontinued operation	(3,062)	(904)	(92)	(954)	(659)	254	(579)	453
Adjusted EBITDA[1]	505	461	294	1,131	959	3,012	1,274	6,048
Adjusted EBITDA per share - basic[1]	0.01	0.01	0.01	0.03	0.03	0.08	0.03	0.17
Net income (loss) per share from continuing operations								
Basic	(0.08)	(0.21)	(0.12)	(0.08)	(0.44)	(0.35)	(0.04)	0.03
Diluted	(0.08)	(0.21)	(0.12)	(0.08)	(0.44)	(0.35)	(0.04)	0.03
Net income (loss) per share from discontinued operation								
Basic	(0.07)	(0.02)	0.00	(0.02)	(0.02)	0.01	(0.02)	0.01
Diluted	(0.07)	(0.02)	0.00	(0.02)	(0.02)	0.01	(0.02)	0.01
Adjusted free cash flow[1]	386	(1,807)	1,011	3,112	(6)	(690)	2,675	3,442

1 *See Financial Measures Reconciliations below*

LIQUIDITY AND CAPITAL RESOURCES

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

Third Amending Agreement	Mar 31 2016	June 30 2016	Sept 30 2016	Dec 31 2016	Mar 31 2017	Thereafter
Debt/EBITDA	5.75:1	5.50:1	5.50:1	4.00:1	3.50:1	3.00:1
Interest Coverage	3.25:1	3.25:1	2.50:1	2.75:1	3.25:1	3.50:1

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

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

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

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

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

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

OUTLOOK

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

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

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

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

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

NON-IFRS MEASURES RECONCILIATION

The Company uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.

Investors are cautioned that EBITDA, adjusted EBITDA and adjusted EBITDA per share, adjusted free cash flow and payout ratio are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

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

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

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

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

Adjusted EBIT

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

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

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

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the consolidated financial statements and notes for the year ended December 31, 2106 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.cercorp.ca.

About Canadian Equipment Rentals Corp.

Canadian Equipment Rentals Corp. is a Canadian public corporation and parent company to Zedcor Energy Services Corp. ("Zedcor"). Zedcor is engaged in the rental of surface equipment and accommodations to the Western Canadian Oil and Gas Industry. The Company trades on the TSX Venture Exchange under the symbol "CFL".

FORWARD-LOOKING STATEMENTS

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

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