Dalmac Energy Inc.

(unaudited)

Consolidated Financial Statements
July 31, 2016

(expressed in Canadian dollars)

Dalmac Energy Inc.

Consolidated Statement of Financial Position

As at July 31, 2016

(expressed in Canadian dollars)

	July 31 2016 $	April 30 2016 $
Assets		
Current assets		
Cash and cash equivalents	74,623	869,619
Accounts receivable (note 5)	2,921,557	2,807,286
Inventories (note 4)	544,233	538,788
Prepaid expenses and deposits (note 6)	422,078	292,441
	3,962,491	4,508,134
Property and equipment (note 7)	17,183,371	17,697,762
	21,145,862	22,205,896
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	2,346,878	2,438,827
Current portion of finance lease obligations (note 9)	768,963	738,090
Current portion of long-term debt (note 10)	7,863,806	7,829,965
	10,979,647	11,006,882
Finance lease obligations (note 9)	732,738	668,732
Long-term debt (note 10)	191,880	296,331
Deferred tax liabilities (note 11)	114,408	355,300
	12,018,673	12,327,245
Shareholders' Equity		
Share capital (note 13)	10,235,731	9,735,731
Shares to be issued	-	440,000
Contributed surplus	1,176,070	1,157,553
(Deficit) Retained earnings	(2,284,612)	(1,454,633)
	9,127,189	9,878,651
	21,145,862	22,205,896

Commitments (note 16)

Dalmac Energy Inc.

Consolidated Statement of Changes in Equity

For the quarter ended July 31, 2016

(expressed in Canadian dollars)

					2016
	Share capital $	Contributed surplus $	Retained earnings $	Shares to be distributed $	Total $
Balance – May 1, 2016	9,735,731	1,157,553	(1,454,633)	440,000	9,878,651
Proceeds from private placement (note 13)	500,000	-	-	(440,000)	60,000
Employee share-based payment options	-	18,517	-	-	18,517
Net loss and comprehensive loss for the year	-	-	(829,979)	-	(829,979)
Balance – July 31, 2016	10,235,731	1,176,070	(2,284,612)	-	9,127,189

					2015
	Share capital $	Contributed surplus $	Retained earnings $	Shares to be distributed $	Total $
Balance – May 1, 2015	9,724,485	1,130,046	1,220,149	-	12,074,680
Issuance of warrants	-	-	-	-	-
Employee share-based payment options	-	14,627	-	-	14,627
Net loss and comprehensive loss for the year	-	-	(761,737)	-	(761,737)
Balance – July 31, 2015	9,724,485	1,144,673	458,412	-	11,327,570

Dalmac Energy Inc.

Consolidated Statement of Operations and Comprehensive Loss

For the quarter ended July 31, 2016

(expressed in Canadian dollars)

	July 31 2016 $	July 31 2015 $
Revenue (note 19)		
Service and products	3,751,675	5,337,170
Expenses (note 20)		
Costs – service and products (note 4)	2,971,883	4,469,170
Amortization of property and equipment	705,874	791,512
General and administrative	764,581	958,857
Finance charges	160,721	148,282
Other losses (note 7)	219,487	5,132
	4,822,546	6,372,953
Loss before income taxes	(1,070,871)	(1,035,783)
Income taxes recovery (note 11)	(240,892)	(274,046)
Net loss and comprehensive loss for the quarter	(829,979)	(761,737)
Loss per share basic and diluted (note 14)	(0.03)	(0.03)

Dalmac Energy Inc.

Consolidated Statement of Cash Flows

For the quarter ended July 31, 2016

(expressed in Canadian dollars)

	July 31 2016 $	July 31 2015 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(829,979)	(761,737)
Items not affecting cash		
Amortization of property, plant and equipment	705,874	791,512
Loss on disposal of property, plant and equipment	219,487	5,132
Finance charges	160,721	148,282
Deferred income tax recovery	(240,892)	(274,046)
Share-based payment	18,517	14,627
	33,728	(76,230)
Change in non-cash operating working capital		
Accounts receivable	(142,445)	357,794
Inventories	(5,445)	10,571
Prepaid expenses and deposits	(129,637)	(11,059)
Accounts payable and accrued liabilities	(91,949)	273,439
	(335,748)	554,515
Financing activities		
Net proceeds from the issuance of equity	60,000	-
Proceeds from long-term debt	-	103,830
Repayment of long-term debt	(90,212)	-
Proceeds from notes receivable	28,174	-
Proceeds from obligations under finance lease	(152,221)	-
Repayment of obligations under finance lease	-	(320,857)
Interest paid	(141,119)	(134,931)
	(295,378)	(351,958)
Investing activities		
Purchase of property and equipment	(163,870)	(284,255)
	(163,870)	(284,255)
Decrease in cash and cash equivalents during the period	(794,996)	(81,698)
Cash and cash equivalents – Beginning of period	869,619	1,519,870
Cash and cash equivalents – End of period	74,623	1,438,172

1 Description of operations

Dalmac Energy Inc. (the Company) was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange trading under the symbol DAL.V. The head office is situated at 4934-89 Street, Edmonton Alberta, T6E 5K1.

2 Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published in the Chartered Professional Accountants of Canada Handbook issued and applicable by July 31, 2016.

These consolidated financial statements were approved by the Board of Directors for issuance on September 29, 2016.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of measurement

The consolidated financial statements were prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the judgment process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in this note.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd. All intercompany balances and transactions are eliminated on consolidation. The Company has applied uniform accounting policies throughout all consolidated entities and the reporting dates of subsidiaries are consistent with the parent.

Subsidiaries are those entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the date control is obtained by the Company and are deconsolidated from the date control ceases.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

The Company's financial assets are comprised of cash and cash equivalents and accounts receivable and have been classified as loans and receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and past experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income (loss).

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, finance lease obligations and long-term debt and have been classified as other financial liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

Joint arrangements

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed its nature of its joint arrangements and determined them to be joint operations.

The Company accounts for its rights and obligations in a joint operation by recognizing:

a) its assets, including its share of any assets held jointly;

b) its liabilities, including its share of any liabilities incurred jointly;

c) its revenue from the sale of its share of the output arising from the joint operation;

d) its share of the revenue from the sale of the output by the joint operation; and

e) its expenses, including its share of any expenses incurred jointly.

Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with banks net of outstanding cheques and short-term highly liquid investments with original maturities of three months or less.

Inventory

Inventory consists of maintenance supplies and consumables, and chemicals. Raw materials and consumables are comprised of spare parts, tires, materials and supplies. Chemicals comprise diesel fuel and various chemicals used to carry out operations to the oil and natural gas industries in Alberta. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Cost includes the direct purchase price of the goods and transportation costs from vendors. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Property and equipment

Property and equipment are recorded at historical cost less accumulated amortization and accumulated impairment loss, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. When significant parts of property and equipment are required to be replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced is derecognized. Similarly, maintenance and inspection costs associated with major overhauls are capitalized and depreciated over their useful lives when it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed.

Property and equipment are amortized using the methods and rates designed to amortize the cost of the property and equipment over their estimated economic useful lives, net of residual value.

The annual amortization rates and methods are as follows:

Buildings	4% declining balance method with no residual value
Service vehicles and equipment	8 – 12 years straight-line method with 20% residual value
Improvements to service vehicles and equipment	4 years straight-line method with no residual value
Motor vehicles	8 years straight-line method with no residual value
Shop equipment	5 – 10 years straight-line method with no residual value
Leasehold improvements	term of lease straight-line method with no residual value
Computer and office equipment	3 – 4 years straight-line method with no residual value
Rental equipment	12 years straight-line method with 20% residual value

Included above in service vehicles, shop equipment and computer equipment are assets under finance lease.

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within expenses in profit or loss.

Amortization of an asset commences when it is available-for-use. Amortization of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date the asset is derecognized. Amortization does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. Assets under construction are not amortized until they are available-for-use.

The residual value and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

Impairment of long-lived assets

Long-lived assets are comprised of property and equipment.

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Lease obligations

Finance leases, which transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

All other leases are classified as operating leases whereby payments are recognized as an expense on a straight-line basis over the lease term.

Income taxes

Tax expense comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Share-based compensation

The Company has established a stock option plan for the executive and Board of Directors, and employees as described in note 13. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is not recorded after the forfeiture date provided the options have not vested.

Revenue recognition

The Company's services are provided based on orders and contracts with customers that include fixed or determinable prices and are based on daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized for services on completion provided it is probable the economic benefits will flow to the Company, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the services are performed and have been accepted by the customer.

Product sales revenue is recognized when the products are delivered, at which time title passes to the customer, and when collectability is reasonably assured. No right of return exists for products.

Earnings per share

Basic earnings per share is calculated by dividing the net income applicable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Diluted earnings per share figures are equal to those of earnings per share if the effects of stock options and warrants have been excluded since they are anti-dilutive. For warrants and stock options, the treasury method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the fiscal year.

Provisions and contingent liabilities

Provisions are recognized when present obligations as a result of a past event will most likely lead to an outflow of economic resources from the Company that can be estimated reliably. The timing or amount of the liability may still be uncertain. Provisions are measured at the estimated amount required to settle the present obligation, taking into consideration the most reliable evidence available at the reporting date. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at the higher of the amount that would be recognized above and the amount initially recorded.

Critical accounting judgments and estimates

Estimates and judgments are continually enhanced and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes judgments and estimates concerning the future. The resulting accounting estimate will by definition, seldom equal the related actual results. The judgments and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Critical accounting judgments

- Leases

  Management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards of ownership. Management evaluates the lease terms and determines appropriate classification of finance lease.

Critical accounting estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

- Impairment of long-lived assets

  An impairment loss is recognized when the amount of an asset's or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and the value in use. Management estimates expected future cash flows from each asset or cash generating unit when determining the value in use. Management makes assumptions about future operating results in the process of measuring expected future cash flows, which are based on future events and circumstances. Actual results may vary from those estimates and may cause significant adjustments to the Company's assets in following years.

- Inventories

  Inventories are measured at the lower of cost and net realizable value. Management uses the most reliable evidence available at the time in determining the net realizable values of the inventories. Allowances against slow moving, obsolete, and damaged inventories are recorded in each reporting period as required based on management estimates.

- Share-based compensation

  The Company uses the Black-Scholes option pricing model for valuing its stock options to employees and directors at the date of issue. Further information regarding this estimate is described in note 13.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after April 30, 2016, and have not been applied in preparing these consolidated financial statements. The Company is in the process of assessing the impact of these standards.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11

The amendments to IFRS 11 clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.

This includes:

- measuring identifiable assets and liabilities at fair value;
- expensing acquisition-related costs;
- recognising deferred tax; and
- recognising the residual as goodwill and testing this for impairment annually.

Existing interests in the joint operation are not remeasured on acquisition of an additional interest, provided joint control is maintained.

The amendments also apply when a joint operation is formed and an existing business is contributed.

The standard is effective for annual periods beginning on or after January 1, 2016. The Company has not yet determined the impact of the final standard.

IFRS 9, Financial Instruments

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortized cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments; and
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The standard is effective for annual periods on or after January 1, 2018. The Company has not yet determined the impact of the final standard.

IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers;
- identify the separate performance obligation;
- determine the transaction price of the contract;
- allocate the transaction price to each of the separate performance obligations; and
- recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of the final standard.

IFRS 16, Leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The new standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet determined the impact of the final standard.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4 Inventories

	July 31, 2016 $	April 30, 2016 $
Maintenance supplies	426,986	423,132
Chemicals	117,247	115,656
	544,233	538,788

The cost of inventory expensed in cost of sales for the period is $167,495 (July 31, 2015 – $234,720). Inventory has been pledged as collateralized against the secured revolving credit facility.

5 Joint arrangements

In previous years, the Company entered into joint arrangements with the following entities where each investor has 50% ownership of certain service equipment and shares 50% of revenue and expenses from the joint operation:

- Jimco Holdings Inc.
- Mittsfit Trucking Ltd.
- 1538401 Alberta Inc.
- 1950381 Alberta Ltd.

The principal place of business of the joint operations referred to above is the Province of Alberta.

Net book value of the Company's share of the equipment held under the above joint arrangements amounts to $703,403 at July 31, 2016 (April 30, 2016 - $733,678) and is included in service vehicles and equipment under property and equipment in note 7.

At July 31, 2016 the Company has recognized its share of revenue and expenses from the above joint arrangements in the amount of $90,228 (July 31, 2015 - $193,494) and $61,629 (July 31, 2015 – $111,530), respectively.

In the previous year, the Company sold a service equipment under capital lease to a related party, PCS Ltd. The sale price of the equipment was $256,000 and the related capital lease obligation was taken over by PCS Ltd. Subsequent to the sale, the Company entered into a joint arrangement with PCS Ltd. and the Company shares 50% of revenues and expenses from the joint operation of the service equipment. The difference between the sale price and the capital lease obligation is receivable from PCS Ltd. and is adjusted against the net revenue and expenses from the joint operations on a monthly basis. As at July 31, 2016, the balance receivable from PCS Ltd. was $37,967 (April 30, 2016 - $66,141), which has been included in accounts receivable on the consolidated statement of financial position.

In addition, the Company has entered into joint arrangements with the following related parties:

- 1414956 Alberta Ltd.
- PCS Ltd.

The above related parties own certain service equipment (see note 17). The Company shares 50% of revenues and expenses from the joint operations. For the period ended July 31, 2016, the Company has recognized its share of revenue and expenses from the above joint arrangements with related parties in the amount of $118,742 (July 31, 2015 $77,004) and $81,544 (July 31, 2015 - $114,397) respectively.

During the quarter, the company sold rental equipment to a related party, PCS Ltd. The sale price was deemed to be $460,000 the proceeds of which were used to purchase a piece of service equipment from the related party. Subsequent to the sale of the rental equipment, the Company entered into a joint arrangement with PCS Ltd. and the Company shares 50% of revenues and expenses from the operation of the rental equipment.

6 Prepaid expenses and deposits

	July 31, 2016 $	April 30, 2016 $
Deposits	202,085	177,866
Insurance	5,102	7,480
Other prepaid expenses	214,891	107,095
	422,078	292,441

Deposits relate to funds deposited for the purpose of entering into equipment and premises lease agreements. Other prepaid expenses include registration and rent for various properties paid in advance.

7 Property and equipment

	Land	Service Vehicles & Equipments	Motor vehicles	Plant & Shop Equipments	Leasehold improvements	Office Equipment	Rental Equipment	Capital Work-in-Process	TOTAL
	$	$	$	$	$	$	$	$	$
Cost									
At April 30, 2016	32,657	33,613,761	711,275	1,192,724	853,719	694,674	3,512,398	316,670	40,927,878
Additions		844,532		11,425		5,445	9,569		**870,970**
Disposals		(24,707)					(1,771,981)		**(1,796,687)**
At July 31, 2016	**32,657**	**34,433,586**	**711,275**	**1,204,149**	**853,718**	**700,120**	**1,749,986**	**316,670**	**40,002,161**
Accumulated amortization and impairment									
At April 30, 2016	-	18,662,640	367,804	862,877	693,075	665,341	1,661,709	316,670	23,230,116
Amortization		580,070	21,559	21,127	32,672	11,412	39,034		**705,874**
Disposals		(9,713)					(1,107,488)		**(1,117,201)**
At July 31, 2016	**-**	**19,232,997**	**389,363**	**884,005**	**725,747**	**676,753**	**593,254**	**316,670**	**22,818,790**
Net carrying amount									
At July 31, 2016	**32,657**	**15,200,589**	**321,911**	**320,145**	**127,971**	**23,367**	**1,156,732**	**-**	**17,183,371**

Included in the above categories are the following amounts for assets under finance lease:

- service vehicles with a net book value of $1,966,980 (April 30, 2016 – $2,285,031);
- computer and office equipment with a net book value of $13,972 (April 30, 2016 – $15,272).

During the period, the Company disposed of certain assets with a net book value of $679,487 (April 30, 2016 – $5,132) and recorded a loss on disposal of $219,487 (April 30, 2016 – $5,132) in the consolidated statement of operations and comprehensive loss.

	Land	Service Vehicles & Equipments	Motor vehicles	Plant & Shop Equipments	Leasehold improvements	Office Equipment	Rental Equipment	Capital Work-in-Process	TOTAL
	$	$	$	$	$	$	$	$	$
Cost									
At April 30, 2015	32,657	33,439,793	739,562	1,156,192	788,329	736,922	3,483,058	203,874	**40,580,387**
Additions		251,238			28,796		26,389	2,290	**308,713**
Disposals		(24,216)							**(24,216)**
At July 31, 2015	**32,657**	**33,666,814**	**739,562**	**1,156,192**	**817,125**	**736,922**	**3,509,447**	**206,164**	**40,864,883**
Accumulated amortization and impairment									
At April 30, 2015	-	16,142,820	305,755	783,487	558,727	587,717	1,401,660	-	**19,780,166**
Amortization		623,375	23,093	22,015	34,124	20,014	68,891		**791,512**
Disposals		(19,084)							**(19,084)**
At July 31, 2015	**-**	**16,747,111**	**328,848**	**805,502**	**592,851**	**607,731**	**1,470,551**	**-**	**20,552,594**
Net carrying amount									
At July 31, 2015	**32,657**	**16,919,704**	**410,713**	**350,690**	**224,274**	**129,191**	**2,038,896**	**206,164**	**20,312,289**

Included in the above categories are the following amounts for assets under finance lease:

- service vehicles and equipment with a net book value of $2,285,031 (April 30, 2016 – $2,972,970);
- shop equipment with a net book value of $nil (April 30, 2016 – $1,122); and
- computer and office equipment with a net book value of $15,272 (April 30, 2016 – $45,087).

Impairment of long-lived assets

The company reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment. During the period, the Company assessed for indicators of impairment which included:

- decrease in market demand;
- significant deterioration in the economic environment; and
- significant portion of assets becoming idle or under-utilized

Management performed a comprehensive assessment of the carrying values of non-financial assets at year-end. The recoverable amount of non-financial assets was determined on the basis of fair value less cost of disposal. These calculations use an earnings multiple approach. In estimating earnings, the Company uses historical information, the past twelve months of actual data and the Board approved forecast to determine earnings before interest, taxes, depreciation and amortization (EBITDA) normalized for unusual and non-recurring items. To determine the recoverable amount, the earnings multiple was applied to EBITDA. The earnings multiple was estimated by reviewing information of comparable public companies. The earnings multiple applied by management was 9.20. For budgeted EBITDA, assumptions were made based on the likelihood that revenue would be earned based on estimated future economic assumptions.

Management performed sensitivity analysis on key assumptions and concluded that reasonable changes to key assumptions would not result in an impairment loss.

Management determined that there was one cash-generating unit for the purposes of the impairment test. Upon completion of the impairment assessment, it was determined that no impairment was to be recognized on the Company's non-financial assets.

8 Accounts payable and accrued liabilities

	July 31, 2016	April 30, 2016
	$	$
Accounts payable	1,652,119	1,621,109
Accrued liabilities	61,506	333,429
GST payable	35,134	18,629
Other payables	598,119	465,660
	2,346,878	2,438,827

9 Finance lease obligations

	July 31, 2016	April 30, 2016
	$	$
Computer equipment lease, with payments of $566 per month at an interest rate of 2.25%, maturing in April 2017, secured by equipment with a net book value of $nil (April 30, 2016 – $nil)	3,375	5,049
Service vehicle lease, with monthly payments of $12,997, including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of $242,475 (April 30, 2016 – $252,379)	118,402	136,229
Service vehicle lease, with monthly payments of $2,850 including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of $120,940 (April 30, 2016 – $127,797)	52,001	59,818
Service vehicle lease, with monthly payments of $7,242 including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of $359,914 (April 30, 2016 – $369,092)	132,004	151,872
Service vehicle lease, with monthly payments of $10,870 including interest at 5.48%, expiring February 2018, secured by specific equipment with a net book value of $214,046 (April 30, 2016 – $222,352)	197,378	227,009
Computer equipment lease, with payments of $928 per month at an interest rate of 6.85%, maturing in November 2018, secured by equipment with a net book value of $0 (April 30, 2016 – $0)	24,755	27,090
Computer equipment lease, with payments of $1,151 per month at an interest rate of 9.74%, maturing in January 2019, secured by equipment with a net book value of $10,691 (April 30, 2016 – $15,272)	31,454	34,101
Service vehicle lease, with monthly payments of $8,000 per month at an interest rate of 14.5%, expiring July 2017. Secured by specific equipment with a net book value of $270,010 (April 30, 2016 – $280,333)	88,866	109,151
Service vehicle lease, with monthly payments of $4,950 including interest at 8%, expiring August 2017, secured by specific equipment with a net book value of $148,601 (April 30, 2016 - $151,536)	61,916	70,901
Service equipment leases, with monthly payments of $13,200 including interest at 7.5%, expiring May 2017, secured by specific equipment with a net book value of $357,055 (April 30, 2016 - $367,665)	127,861	164,792
Service equipment leases, with monthly payments of $6,858 including interest at 7.5%, expiring March 2017, secured by specific equipment with a net book value of $327,578 (April 30, 2016 - $337,308)	268,413	283,414
Service equipment leases, with monthly payments of $4,812 including interest at 5.99%, expiring November 2018, secured by specific equipment with a net book value of $173,750 (April 30, 2016 - $179,569)	124,953	137,396
Service equipment lease, with monthly payment of $759 including interest at 7.5%, expiring May 2019, secured by specific equipment with a net book value of $26,497 (April 30, 2016 - $0)	23,224	-
Service equipment leases, with monthly payments of $7,627 including interest at 7.23%, expiring December 2021, secured by specific equipment with a net book value of $253,924 (April 30, 2016 - $0)	247,100	-
	1,501,701	1,406,822
Less: Amounts due within one year	768,963	738,090
	732,738	668,732

	Minimum lease payment due		
	Within one year	One to five years	Total
	$	$	$
Lease payments	848,552	794,613	1,643,165
Finance charges	(79,590)	(68,522)	(148,112)
Net present value	768,963	726,090	1,495,053

Interest expense for the period on finance lease obligations amounted to $23,041 (July 30, 2015 – $30,784).

10 Long-term debt

	July 31, 2016	April 30, 2016
	$	**$**
Vehicle conditional sales contracts, with an interest rates ranging from 3.99% to 5.99% per annum repayable in monthly blended payments that vary over the term of the contracts, maturing from November 2015 - June 2017, secured by specific service vehicles with a carrying value of $349,743 (April 30, 2016 – $199,317)	60,826	79,434
Non-revolving term loans which bear interest at lender prime plus 2.5% per annum, with term ranging from 60 months to 68 months, monthly payments excluding interest ranging from $750 to $9,025, secured by a first charge on specific equipment with a carrying value of $347,232 (April 30, 2016 – $497,658)	413,129	419,822
Secured revolving credit facility for up to $17,000,000, subject to certain borrowing base restrictions, with an accordion feature which the Company may request for an additional $3,000,000. This facility has an interest rate of lender prime plus 1.25%, there are no principal payments required until the due date, which is September 10, 2018. The facility is secured by a general security agreement with a first charge on all the Company's assets	7,581,732	7,627,040
Promissory note repaid during the year		-
	8,055,687	8,126,296
Less: Amounts due within one year	(7,863,806)	7,829,965
	191,880	296,331

Approximate principal repayments due within each of the next five years are as follows:

	$
2017	7,863,806
2018	153,601
2019	38,278
2020	-
2021	-
	8,055,686

The aforementioned secured revolving credit facility is subject to certain financial covenants including fixed charge coverage and maximum senior leverage test covenants which are tested quarterly. The covenants were amended subsequent to quarter end, and the Company was compliant with its senior lender as at July 31, 2016. Due to the amendment of the terms finalized subsequent to the quarter end, the secured revolving credit facility was classified as a current liability. Covenants are required to be tested quarterly, if the Company does not maintain a minimum working capital availability of 1.35M for the two subsequent quarters. As at July 31, 2016, the Company is fully compliant with its bank covenants.

Interest expense for the period on long-term debt amounted to $137,431 (July 30, 2015 – $108,582).

11 Income taxes

Tax liabilities

	July 31, 2016 $	April 30, 2016 $
Deferred	114,408	355,300

Non-capital losses

As at April 30, 2016, the Company has non-capital losses available for carry-forward of $8,110,212 (April 30, 2015 – $5,629,061). The expiry of these non-capital losses are as follows:

	$
2030	2,798,927
2031	262,940
2032	169,412
2033	163,519
2034	1,357,166
2035	877,097
2036	2,481,211
	8,110,272

Temporary differences

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax liability are as follows:

	July 31, 2016 $	April 30, 2016 $
Income tax effect of taxable (deductible) temporary differences		
Net book value in excess of undepreciated capital cost for tax purposes	2,886,882	3,127,774
Non-capital losses carried forwards	(2,300,944)	(2,300,944)
Financing costs deducible for tax purposes	5,003	5,003
Cumulative eligible capital	(96,691)	(96,691)
Finance lease obligations	(379,842)	(379,842)
	114,408	355,300

12 Capital management

The Company's strategy is to: (a) maintain a level of capital for operations and to sustain future growth of the business; and (b) meet the debt covenants imposed by the banking institution. The Company strives to maintain a healthy balance between debt and equity to ensure the continued access to capital to fund growth and ensure long-term viability. The Company defines capital as long-term debt, long-term capital lease obligations and shareholders' equity. The Company monitors its capital balance through regular evaluations of its long-term debt to equity ratio. The components of capital used in the long-term debt to equity ratio as at July 31, 2016 are shown in the table below:

	July 31, 2016	**April 30, 2016**
	$	**$**
Long-term debt	191,880	296,331
Finance lease obligations – long-term	732,738	668,732
Total long-term debt	924,618	965,063
Shareholders' equity	10,235,731	9,878,651
Total capital	11,160,349	10,843,714
Long-term debt to equity ratio	0.09	0.10

The Company is subject to externally imposed capital requirements in the form of fixed charge coverage and maximum senior leverage test ratios. The Company reviews these ratios on a monthly basis to assess the ongoing status of its financial condition. These covenants are required to be tested quarterly, if the company does not maintain a minimum working capital availability of 1.35M for the two subsequent quarters. As at July 31, 2016, the Company is fully compliant with its bank covenants.

13 Share capital

Authorized

Unlimited common voting shares

Unlimited preferred shares, non-voting, issuable in series

Common shares issued

	Number of shares	Amount $
Balance – May 1, 2015	23,247,406	9,724,485
Shares issued on exercise of options	50,000	11,246
Balance – April 30, 2016	23,297,406	9,735,731
Balance – May 1, 2016	23,297,406	9,735,731
Shares issued on unit offering	5,000,000	500,000
Shares issued on exercise of options	-	-
Balance – July 31, 2016	28,297,406	10,235,731

On March 31, 2016, the Company announced its intention to complete an offering of up to 5,000,000 units at a price of $0.10 per unit for gross proceeds of up to $500,000 by way of private placement. Pursuant to the private placement, each unit shall entitle the holder thereof to acquire, at no additional cost, one common share of the Company and one share purchase warrant of the Company. Each warrant shall entitle the holder thereof to acquire one common share at a price of $0.15 per share for a period of eighteen months from the closing date of the private placement. The Company announced the closing of the private placement on May 3, 2016 under which 5,000,000 units were issued for gross proceeds of $500,000.

Stock options

The Company has a stock option plan under which directors, officers and employees of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company and options granted under the plan may not exceed five years. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchanges on which the Company's common shares are then listed.

On May 3, 2016, the Company granted 5,000,000 options under a unit offering, with a fair value of $85,000. These options entitle the shareholder to acquire one common share at $0.15 per share for a period of eighteen months starting May 3, 2016. The fair value of the options was calculated using a risk free interest rate of

0.55%, the expected life of the option was 1.5 years, the expected volatility was 72.1%, and the expected forfeiture rate estimated was nil%.

On October 2, 2014, the Company granted 200,000 options to its directors under the stock option plan with a fair value of $52,200. These options are vested equally over three years starting October 2, 2014. The fair value of the options was calculated using a risk free interest rate of 0.9%, the expected life of the options was five years, the expected volatility was 88.8%, and the expected forfeiture rate estimate was nil%.

The total cost of options vested in the current period resulted in stock-based compensation expense and an addition to contributed surplus of $18,517 (July 31, 2015 – $14,628).

The following summarizes activity related to stock options:

	Number	**Weighted average exercise price $**
Balance – May 1, 2015	1,426,000	0.48
Expired	-	
Forfeited	(50,000)	
Granted	-	
Exercised	(51,000)	
Outstanding – April 30, 2016	1,325,000	0.48
Exercisable – April 30, 2016	1,191,667	0.49
Balance – May 1, 2016	1,325,000	0.48
Expired	-	
Forfeited	-	
Granted	5,000,000	
Exercised	-	
Outstanding – July 31, 2016	6,325,000	0.22
Exercisable – July 31, 2016	6,191,667	0.22

The following summarizes stock options outstanding as at July 31, 2016:

Expiry Date	Number outstanding	Exercise price
		$
August 30, 2016	400,000	0.50
January 17, 2017	25,000	0.50
March 21, 2017	200,000	0.50
August 31, 2017	500,000	0.50
November 3, 2017	5,000,000	0.15
October 2, 2019	200,000	0.38
	6,325,000	

14 Earnings (loss) per share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	July 31, 2016	April 30, 2016
	$	$
Numerator for basic and diluted earnings (loss) per share		
Net income attributable to common shareholders	(829,979)	(2,684,193)
Denominator for basic and diluted earnings (loss) per share		
Weighted average number of common shares	28,247,406	23,246,173
Basic loss per share	(0.03)	(0.12)
Diluted loss per share	(0.03)	(0.12)

The effects of the following stock options and warrants outstanding are not included in the diluted loss per share calculation as the impact would be anti-dilutive:

	July 31, 2016	April 30, 2016
Options issued and outstanding	6,325,000	1,325,000

15 Supplemental cash flow information

Non-cash financing and investing activities

Acquisition of property and equipment with finance leases of $247,100 (July 31, 2015 – $24,457).

16 Commitments

The Company pays consulting fees to the CEO who is a director and officer of the Company, of $11,823 (July 31, 2015 – $12,445) per month pursuant to a contract agreement expiring on November 14, 2019. In addition, when the Company's net income before tax reaches $500,000, the contract agreement requires a bonus payment of 5% on the first $500,000 of the Company's earnings before tax, 6% on amounts between $500,001 and $800,000, 7% on amounts between $800,001 and $1,000,000 and 7.5% on amounts over $1,000,000.

The Company leases equipment and premises under long-term operating leases. The leases for premises are exclusive of operating costs.

Future minimum annual payments are as follows:

	Minimum payments due		
	Within one year $	**One to five years** $	**Total** $
Equipment leases	333,702	326,028	659,730
Premises leases	833,283	708,399	1,541,682
Management contracts	141,871	673,888	815,759
	1,358,856	1,708,315	3,017,171

17 Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the period include the following expenses:

	July 31, 2016 $	**July 31, 2015** $
Salaries - including bonuses	88,236	94,853
Director's fees	9,000	11,250
Benefits	4,200	5,338
Share-based payments	18,517	14,627
	119,952	126,068

The remuneration of directors and key executives is determined by the Executive Compensation Committee, taking into account the performance of individuals and market trends.

Transactions with related parties

The Company has entered into transactions in the normal course of business with corporations controlled by officers and directors of the Company and corporations that have common ownership. These transactions were recorded at the exchange amount established and agreed to by the parties. During the period ended July 31, 2016, the following expenses were incurred:

	July 31, 2016 $	July 31, 2015 $
Leased Premises	122,127	108,628
Rental/equipment operating lease	103,011	92,511
	225,139	201,139

The Company has entered into joint agreements with related parties which are described in note 5.

18 Financial risk management

a) Financial instruments – carrying values

	July 31, 2016 $	April 30, 2016 $
Financial assets – classified as loans and receivables		
Cash	74,623	869,619
Accounts receivable	2,921,557	2,807,286
Financial liabilities – classified as other financial liabilities		
Accounts payable and accrued liabilities	2,346,878	2,438,827
Finance leases	1,501,701	1,406,822
Long-term debt	8,055,686	8,126,296

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties under no compulsion to act. The Company has determined that the fair value of its short-term financial assets, including cash and accounts receivable and short-term liabilities including accounts payable and accrued liabilities approximates their respective carrying amounts as at the consolidated statement of financial position date because of the short-term maturity of those instruments. The fair value of the notes receivable approximates their carrying value as the interest rate is similar to the current market rate for similar instruments. The fair value of the long-term debt obligations approximates their carrying value as the interest rates are similar to the current market rate for similar debt.

b) Financial risk management

- Credit risk

Credit risk arises from the potential a counterparty will fail to perform its obligations. The Company is exposed to credit risk through its cash. The Company manages this risk by holding its funds with reputable financial institutions. The Company is exposed to credit risk from customers; however, it is the opinion of the Company's management that the credit risk is minimal. Accounts receivable carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit related losses are expected to be incurred, taking into consideration all circumstances known at the date of review. The Company's maximum exposure is the value of its trade accounts receivable and cash, which at July 31, 2016, had a total carrying value of $2,996,180 (April 30, 2016 – 3,676,905). A significant portion (34%) of the outstanding accounts receivable at July 31, 2016 is due from two customers (April 30, 2016 – 37% from one customer). The Company considers customers to be significant when revenues from the account reach 10% of the company's revenue. The Company has three significant customers at July 31, 2016, that accounted for approximately 55% of the company's revenue for the period (July, 2015 – 58% from four customers).

The aging of trade accounts receivable balances for the period ending July 31, 2016 is as follows:

	July 31, 2016	**April 30, 2016**
	$	**$**
0 to 30 days	1,548,865	1,857,610
30 to 60 days	299,395	679,303
60 to 90 days	67,491	79,835
90 to 120 days	34,506	91,847
over 120 days	189,381	98,691
	2,139,638	2,807,286

Management is not currently aware of any receivables that would need to be classified as uncollectible. Historically, bad debts as a percentage of revenue are less than 1%.

- Liquidity risk

Liquidity risk is the potential inability to meet financial obligations as they come due. The Company manages this risk by maintaining detailed cash flow forecasts. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of historical volatility and seasonal needs and the maturity profile of indebtedness. The Company also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility. The Company has a working deficit of $7,017,156 at July 31, 2016 (April 30, 2016 – $6,498,748 deficit).

The Company's current credit facility contains financial covenants that are based on fixed charge coverage and senior leverage ratios which are tested quarterly if the Company does not maintain a working capital availability of 1.35M. As at July 31, 2016, the Company was in compliance with its covenants.

The following table summarizes the contractual maturities and financial liabilities for continuing operations for the year ended April 30 under loan facilities as they existed as at July 31, 2016.

	2017	**2018**	**2019**	**2020**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	2,346,878	-	-	-
Finance lease obligations*	848,552	426,430	175,574	192,609
Long-term debt	7,863,806	153,601	38,278	-
	11,059,236	580,031	213,852	192,609

* Includes interest calculated to be paid.

- Interest rate risk

The Company has floating rate debt, which is subject to interest rate cash flow risk. The required cash flow to service the debt will fluctuate as a result of the changes in market rates.

As at July 31, 2016, with other variables unchanged, an increase or decrease of 1% in the prime interest rate would impact the Company's net income by approximately $76,206.

19 Revenue

Revenue includes service revenue amounting to $3,667,379 (July 31, 2015 - $5,156,875) and product revenue of $84,296 (July 31, 2015 - $180,295).

20 Expenses by nature

	July 31, 2016 $	July 31, 2015 $
Wages and benefits	2,129,539	3,021,398
Depreciation	705,874	791,512
Vehicle expense	669,930	839,555
Office	499,785	733,670
Parts and chemicals	333,717	665,661
Loss and Impairment on assets	219,487	5,132
Interest and bank charges	197,692	183,788
Repairs and maintenance	66,522	132,236
	4,822,546	6,372,953

21 Subsequent events

The Company received financing in the amount of $1.5 million on August 29, 2016 to satisfy certain conditions included in the amendment agreement described in note 10.