Strad Energy Services Ltd.

Unaudited Interim Consolidated Financial Statements
As at and for the three and nine months ended September 30, 2011

Strad Energy Services Ltd.
Consolidated Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	September 30, 2011 $	December 31, 2010 $
Assets		
Current assets		
Cash and cash equivalents	6,000	8,416
Accounts receivable	58,733	41,700
Inventories	13,981	15,171
Prepaid expenses and deposits	3,682	2,887
Income taxes receivable	114	241
	82,510	68,415
Non-current assets		
Property, plant and equipment (note 5)	117,959	70,128
Intangible assets (note 6)	9,151	11,446
Goodwill	36,004	36,004
Deferred income taxes	14,951	5,475
Total assets	260,575	191,468
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	35,621	26,755
Deferred revenue	499	3,387
Current portion of obligations under finance lease (note 7)	4,951	4,662
Income taxes payable	2,164	36
	43,235	34,840
Non-current liabilities		
Long-term debt (note 8)	31,500	-
Obligations under finance lease (note 7)	4,026	5,282
Deferred income tax liabilities	25,649	10,462
Total liabilities	104,410	50,584
Equity		
Equity attributable to owners of the parent		
Share capital (note 9)	157,043	157,071
Contributed surplus	2,863	2,221
Accumulated other comprehensive income (loss)	207	(924)
Deficit	(5,655)	(18,235)
	154,458	140,133
Non-controlling interests	1,707	751
Total equity	156,165	140,884
Total liabilities and equity	260,575	191,468

The accompanying notes are an integral part of these consolidated interim financial statements.

Strad Energy Services Ltd.

Consolidated Statement of Income

For the three and nine months ended September 30, 2011 and 2010

(Unaudited)

(in thousands of Canadian dollars, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Revenue	78,121	41,615	175,482	108,683
Expenses				
Operating expenses	49,037	25,220	109,867	68,187
Depreciation	5,266	2,859	13,803	7,918
Amortization of intangible assets	907	916	2,657	2,749
Accretion of convertible debentures	-	22	-	22
Selling, general and administration	10,298	7,674	26,609	19,619
Share-based payments	187	130	642	435
Loss (gain) on disposal of property, plant and equipment	63	-	(94)	(61)
Foreign exchange (gain) loss	(914)	(195)	(319)	119
Net interest expense	514	760	1,258	1,781
Income before income tax	12,763	4,229	21,059	7,914
Income tax (note 10)	4,830	1,461	7,649	2,542
Net income for the period	7,933	2,768	13,410	5,372
Net income attributable to:				
Owners of the parent	7,436	2,323	12,580	4,733
Non-controlling interests	497	445	830	639
	7,933	2,768	13,410	5,372
Earnings per share:				
Basic	$0.20	$0.12	$0.34	$0.24
Diluted	$0.20	$0.10	$0.34	$0.23

The accompanying notes are an integral part of these consolidated interim financial statements.

Strad Energy Services Ltd.

Consolidated Statement of Comprehensive Income

For the three and nine months ended September 30, 2011 and 2010

(Unaudited)

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2011	**2010**	**2011**	**2010**
Net income for the period	7,933	2,768	13,410	5,372
Other comprehensive income (loss)				
Cumulative translation adjustment	2,320	(466)	1,257	(466)
Total other comprehensive income (loss)	2,320	(466)	1,257	(466)
Comprehensive income for the period	10,253	2,302	14,667	4,906
Comprehensive income attributable to:				
Owners of the parent	9,524	1,904	13,711	4,314
Non-controlling interests	729	398	956	592
	10,253	2,302	14,667	4,906

The accompanying notes are an integral part of these consolidated interim financial statements.

Strad Energy Services Ltd.

Consolidated Statement of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to equity owners of the Company						
	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total $	Non-controlling Interest $	Total equity $
Balance – January 1, 2011	157,071	2,221	(924)	(18,235)	140,133	751	140,884
Net income for the period	-	-	-	12,580	12,580	830	13,410
Other comprehensive income (net of tax):							
Cumulative translation adjustment	-	-	1,131	-	1,131	126	1,257
Comprehensive income for the period	-	-	1,131	12,580	13,711	956	14,667
Share issuance costs	(147)	-	-	-	(147)	-	(147)
Shareholder loan	119	-	-	-	119	-	119
Employee share options:							
Value of services recognized	-	642	-	-	642	-	642
Balance – September 30, 2011	157,043	2,863	207	(5,655)	154,458	1,707	156,165
Balance – January 1, 2010	99,091	1,661	-	(25,544)	75,208	36	75,244
Net income for the period	-	-	-	4,733	4,733	639	5,372
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	(419)	-	(419)	(47)	(466)
Comprehensive income (loss) for the period	-	-	(419)	4,733	4,314	592	4,906
Employee share options:							
Value of services recognized	-	435	-	-	435	-	435
Share repurchase	(12)	-	-	-	(12)	-	(12)
Shareholder loans	(823)	-	-	-	(823)	-	(823)
Balance – September 30, 2010	98,256	2,096	(419)	(20,811)	79,122	628	79,750

The accompanying notes are an integral part of these consolidated interim financial statements.

Strad Energy Services Ltd.

Consolidated Statement of Cash Flow

For the three and nine months ended September 30, 2011 and 2010

(Unaudited)

(in thousands of Canadian dollars)

Cash flow provided by (used in)	**Three months ended September 30**		**Nine months ended September 30**	
	2011	**2010**	**2011**	**2010**
Operating Activities				
Net income for the period	7,933	2,768	13,410	5,372
Adjustments for:				
Depreciation and amortization	6,173	3,775	16,460	10,667
Accretion of convertible debentures	-	22	-	22
Deferred income tax expense	2,454	2,916	5,670	2,325
Share-based payments	187	130	642	435
Net interest expense	514	760	1,258	1,781
Loss (gain) on disposal of property, plant and equipment	63	-	(94)	(61)
Changes in items of non-cash working capital:				
Accounts receivable	(13,346)	(8,071)	(17,033)	(20,077)
Inventories	2,014	566	1,190	3,994
Prepaid expenses	(723)	208	(795)	(1,087)
Accounts payable and accrued liabilities	7,920	(822)	8,866	5,823
Note receivable	2,949	-	-	-
Other current liabilities	(1,113)	(1,437)	(634)	665
Net cash generated from operating activities	15,025	815	28,940	9,859
Investing activities				
Purchase of property, plant and equipment	(5,081)	(11,264)	(55,552)	(29,339)
Proceeds from sale of property, plant and equipment	374	314	826	776
Purchase of intangible assets	(28)	(26)	(366)	(180)
Net cash generated from investing activities	(4,735)	(10,976)	(55,092)	(28,743)
Financing activities				
Change in bank indebtedness	(10,070)	(2,584)	-	1,968
Proceeds on issuance of long-term debt	35,000	14,519	57,000	3,559
Repayment of long-term debt	(25,500)	-	(25,500)	-
Repayment of finance lease obligations (net)	(1,259)	(1,048)	(4,343)	(1,052)
Proceeds on issuance of convertible debentures	-	-	-	16,166
Net interest expense	(514)	(760)	(1,258)	(1,781)
Repurchase of share capital	-	(2)	-	(12)
Share issuance costs	-	-	(147)	-
Repayment of shareholder loan	119	-	119	-
Net cash generated in financing activities	(2,224)	10,125	25,871	18,848
Effect of exchange rate changes on cash and cash equivalents	(2,066)	36	(2,135)	36
Increase (decrease) in cash and cash equivalents	6,000	-	(2,416)	-
Cash and cash equivalents – Beginning of period	-	-	8,416	-
Cash and cash equivalents – End of period	6,000	-	6,000	-

The accompanying notes are an integral part of these consolidated financial statements.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

1 General information

Strad Energy Services Ltd., (the "Company") is an energy services provider engaged in providing support equipment and services to oil and gas exploration and production companies in Canada and the United States.

The Company is a publicly listed company incorporated in Canada under the legislation of the Province of Alberta. The condensed interim consolidated financial statements of the Company as at and for the period ended September 30, 2011, comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The head office, principal address and records office of the Company are located at 440 2nd Ave SW, Suite 1200, Calgary, Alberta, Canada, T2P 5E9.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on November 9, 2011.

2 Basis of preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") on or after January 1, 2011. Accordingly, the Company has continued reporting on this basis in these condensed interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those in the Company's consolidated financial statements for the three and nine months ended September 30, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011, could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company's IFRS annual financial statements at December 31, 2010 and condensed interim consolidated financial statements for the periods ended March 31, 2011 and June 30, 2011.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

New accounting pronouncements:

As of January 1, 2013, the Company will be required to adopt the following standards and amendments as issued by the IASB, which should not have a material impact on the Company's Consolidated Financial Statements.

(a) IFRS 9 – Financial Instruments, which is the result of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

(b) IFRS 10 – Consolidated Financial Statements, which is the result of IASB's project to replace Standing Interpretations Committee 12 – Consolidation – Special Purpose Entities and the consolidation requirements of IAS 27 – Consolidated and Separate Financial Statements. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

(c) IFRS 11 – Joint Arrangements, which is the result of the IASB's project to replace IAS 31 – Interest in Joint Ventures. The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

(d) IFRS 12 – Disclosure of Interest in Other Entities, which outlines the required disclosures for interest in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

(e) IFRS 13 – Fair Value Measurement, which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

(f) IAS 19 – Post Employment Benefits, which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

3 Transition to IFRS

As disclosed in note 2, these condensed interim consolidated financial statements represent the Company's continued presentation of the financial results of operations and financial position under IFRS for the period ended September 30, 2011 in conjunction with the Company's annual audited consolidated financial statements to be issued under IFRS as at and for the year ended December 31, 2011.

The following reconciliations present the adjustments made to the Company's previous Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations.

(i) Reconciliation of deficit, equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Deficit		**September 30, 2010** $
Deficit as reported under Canadian GAAP		(20,169)
IFRS adjustments increase (decrease)	**4(ii)**	
Share based payments	(a)	(755)
Deferred tax	(b)	149
Foreign currency translation	(c)	(36)
Deficit as reported under IFRS		(20,811)

Equity		**September 30, 2010** $
Equity as reported under Canadian GAAP [(1)]		80,111
IFRS adjustments increase (decrease)	**4(ii)**	
Deferred tax	(b)	149
Foreign currency translation	(c)	(36)
Accumulated other comprehensive income	(c)	(466)
Non-controlling interest	(c)	(8)
Equity as reported under IFRS		79,750

(1) Equity as reported under Canadian GAAP includes non-controlling interest.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

Comprehensive income		**Three months ended September 30, 2010** $	**Nine months ended September 30, 2010** $
As reported under Canadian GAAP		2,354	4,877
Increase (decrease) in net income for:	**4(ii)**		
Share-based payments	(a)	(75)	(257)
Deferred tax	(b)	80	149
Foreign currency translation	(c)	(36)	(36)
Increase (decrease) in other comprehensive income for:			
Cumulative translation adjustment	(c)	(419)	(419)
As reported under IFRS		1,904	4,314

The following discussion explains the significant differences between the Company's previous Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

(ii) IFRS adjustments

(a) Under previous Canadian GAAP, as a private company, Strad accounted for its stock-based compensation plans whereby the fair market value of option grants was determined using a volatility rate of 0% and an estimated forfeiture rate of 0% in the Black-Scholes pricing model.

IFRS does not provide for alternate accounting policies for private companies and requires the use of a volatility rate based on actual company trading history or the average of the volatility rates of its closest related peer group as well as the application of an estimated forfeiture rate. Accordingly, upon transition to IFRS, the Company recorded an adjustment of $498 thousand to increase contributed surplus to recognize the increase in share-based payments expense with the offset charged to deficit. The Company elected to use the IFRS 1 exemption whereby the share-based payment expense for options that had vested prior to January 1, 2010 were not required to be retrospectively restated. The application of IFRS for share-based payments resulted in a $75 thousand and $257 thousand decrease to the Company's previous Canadian GAAP net income for the three and nine months ended September 30, 2010. Therefore, the total impact to deficit at September 30, 2010 was an increase of $755 thousand.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

(b) Deferred tax has been adjusted to reflect the tax differences arising from the differences between IFRS and previous Canadian GAAP for temporary differences arising on intercompany sales of assets. The adjustment arises from differing tax rates between Canada and the United States. During the three and nine months ended September 30, 2010, the application of the IFRS adjustments to the tax provision resulted in a $80 thousand and $149 thousand decrease to the Company's deferred income tax expense and a corresponding increase to the Company's previous Canadian GAAP net earnings.

(c) Under previous GAAP, the functional currency for the Company's U.S. subsidiary was determined to be the CDN dollar, consistent with the parent's functional currency. Under IFRS, it was determined the functional currency of the Company's U.S. subsidiary changed from the CDN dollar to the U.S. dollar in the third quarter of 2010 when revenue generated by the U.S. subsidiary increased substantially as a percentage of total consolidated revenue. For the three and nine months ended September 30, 2010, the change in functional currency resulted in a decrease in property, plant and equipment of $497 thousand, a decrease in prepaid expenses of $13 thousand, a decrease in non-controlling interest of $8 thousand, a decrease in accumulated other comprehensive income of $466 thousand and a increase in deficit of $36 thousand.

(iii) Adjustments to the statement of financial position

The transition from Canadian GAAP to IFRS resulted in the following reclassifications to the opening statement of financial position:

(a) The net book value of computer software was reclassified to intangible assets upon transition resulting in a decrease in property, plant and equipment of $342 thousand at December 31, 2010.

(b) Under IFRS, all deferred tax assets and liabilities are required to be classed as long-term. Therefore, upon transition, an adjustment was made to reclassify the deferred tax asset of $697 thousand from current to long-term assets at December 31, 2010.

(iv) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating.

4 Business combination

On May 1, 2011 the Company acquired substantially all of the capital assets of a private oil and gas service company, which complements the Company's existing rental fleet. The Company paid total consideration of $4.25 million cash and recorded $53 thousand of transaction costs in SG&A. Total revenue related to the acquired assets since acquisition of $1.3 million is included in consolidated revenue. Pro forma financial results of the private company have not been included as it is impracticable to separate the financial results of the acquired assets from non-acquired assets of the private company from the beginning of the reporting period.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

The estimated fair value of the assets acquired using the acquisition method were as follows:

Equipment	$4,200
Non-compete intangible asset	50
	$4,250

5 Property, plant and equipment

Cost

	Buildings $	Automotive Equipment $	Furniture & Fixtures $	Computers $	Tools & Equipment $
As at December 31, 2010	353	2,995	1,070	1,201	6,390
Capital expenditures	-	569	442	396	1,942
Divestitures	-	(444)	(16)	(27)	(248)
Transfers	-	28	-	-	11
Foreign currency translation	-	(3)	11	(5)	114
As at September 30, 2011	353	3,145	1,507	1,565	8,209

Cost (cont'd)

			Assets Under Finance Lease		
	Leasehold Improvements $	Rental Equipment $	Rental $	Other $	Total $
As at December 31, 2010	1,773	65,604	13,353	8,273	101,012
Capital expenditures	238	51,965	-	-	55,552
Divestitures	(127)	(156)	(354)	(1,064)	(2,436)
Transfers	-	2,183	(2,943)	(254)	(975)
Assets under financial lease	-	-	1	3,374	3,375
Foreign currency translation	2	2,837	-	102	3,058
As at September 30, 2011	1,886	122,433	10,057	10,431	159,586

Accumulated Depreciation and Amortization

	Buildings $	Automotive Equipment $	Furniture & Fixtures $	Computers $	Tools & Equipment $
As at December 31, 2010	165	2,046	799	946	4,576
Depreciation	64	320	126	159	747
Divestitures	-	(394)	(11)	(27)	(226)
Transfers	-	21	-	-	3
Foreign currency translation	-	-	1	1	10
As at September 30, 2011	229	1,993	915	1,079	5,110
Net book value					
As at December 31, 2010	188	949	271	255	1,814
As at September 30, 2011	124	1,152	592	486	3,099

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

Accumulated Depreciation and Amortization (cont'd)

	Leasehold Improvements	Rental Equipment	*Assets Under Finance Lease* Rental	Other	Total
	$	$	$	$	$
As at December 31, 2010	905	12,897	4,739	3,811	30,884
Depreciation	220	9,846	1,011	1,310	13,803
Divestitures	(64)	(29)	(271)	(682)	(1,704)
Transfers	-	105	(1,030)	(72)	(973)
Foreign currency translation	-	(411)	-	16	(383)
As at September 30, 2011	1,061	22,408	4,449	4,383	41,627
Net book value					
As at December 31, 2010	868	52,707	8,614	4,462	70,128
As at September 30, 2011	825	100,025	5,608	6,048	117,959

6 Intangible assets

Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
	$	$	$	$	$
As at December 31, 2010	20,558	2,995	1,942	1,057	26,552
Capital expenditures	-	-	50	316	366
Divestitures	-	-	-	(58)	(58)
Transfers	-	-	-	-	-
Foreign currency translation	-	-	-	5	5
As at September 30, 2011	20,558	2,995	1,992	1,320	26,865

Accumulated Depreciation and Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
	$	$	$	$	$
As at December 31, 2010	11,335	1,371	1,684	716	15,106
Amortization	1,942	225	261	229	2,657
Divestitures	-	-	-	(58)	(58)
Transfers	-	-	-	9	9
As at September 30, 2011	13,277	1,596	1,945	896	17,714
Net book value					
As at December 31, 2010	9,223	1,624	258	341	11,446
As at September 30, 2011	7,281	1,399	47	424	9,151

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

7 Obligations under finance lease

	As at September 30, 2011 $	As at December 31, 2010 $
Equipment under finance lease	8,977	9,944
Current portion	(4,951)	(4,662)
	4,026	5,282

As part of the Company's obligation under finance lease as described above, the Company had access to a bank lease facility of $10 million under the previous credit agreement. On July 26, 2011, the Company entered into a three year banking syndication agreement maturing on July 26, 2014. The existing bank lease facility was not renewed as part of the syndication agreement and existing leases will continue to be repaid in fixed monthly payments for the remainder of the lease terms. The bank leases bear interest at fixed market rates and at September 30, 2011, the overall effective rate was 5.63%.

8 Long-term debt

	As at September 30, 2011 $	As at December 31, 2010 $
Revolving facility	31,500	-
Current portion	-	-
	31,500	-

On July 26, 2011, the Company entered into a three year banking syndication credit agreement maturing on July 26, 2014. The terms of the agreement allow for the Company to borrow up to $100 million by way of a $15 million operating facility and an $85 million revolving facility, both subject to borrowing base margin requirements based on the Company's accounts receivable, inventory and net book value of fixed assets. Monthly payments are interest only and the facility is secured by a general security agreement over the Company's assets. The syndicated facility bears interest at a variable rate, which is dependent on the Company's funded debt to EBITDA ratio. Based on the Company's current funded debt to EBITDA ratio, the interest rate on the credit facility is bank prime plus 1.25% on prime rate advances and at the prevailing rate plus a stamping fee of 2.25% on bankers' acceptances. At September 30, 2011, the overall effective rate on the credit facility was 4.33%.

As part of the July 26, 2011 banking syndication credit agreement, the Company repaid the $22 million balance owing as disclosed in the June 30, 2011 condensed interim financial statements, and cancelled the previous 364-day revolving loan facility.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

9 Share capital

a) Authorized

An unlimited number of Classes A, B, C, D, E and F shares without nominal or par value.

As at September 30, 2011, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	For the nine months ended September 30, 2011		Year ended December 31, 2010	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	37,246,384	157,071	20,149,380	99,091
Issued on private placements	-	-	258,000	645
Issued on IPO	-	-	11,250,000	45,000
Issued on conversion of debentures	-	-	5,593,603	16,781
Repurchases	-	-	(4,599)	(19)
Shareholder loans	-	119	-	(1,460)
Share issue costs	-	(147)	-	(3,988)
Future income taxes	-	-	-	1,021
Total common shares, end of period	37,246,384	157,043	37,246,384	157,071

c) Share-based compensation

Options to purchase common shares may be granted by the Board of Directors to directors, officers and employees of the Company. The Company has two option plans. In November 2010, the Board of Directors approved a new stock option plan with options with a term of five years and each stock option provides the employee with the right to purchase one common share. Options vest one-third on each of the first, second and third anniversary dates of the grant date.

Options granted under the previous plan have a term of six years and either vest one-third on each of the second, third and fourth anniversary dates of the grant date or one-half on each of the first and second anniversary dates of the grant date.

Details of the exercise prices and expiry dates of options outstanding and exercisable at September 30, 2011 are as follows:

	September 30, 2011		December 31, 2010	
	Outstanding options	Weighted average exercise price per share $	Outstanding options	Weighted average exercise price per share $
Balance, beginning of period	1,826,667	4.05	1,219,500	4.96
Granted	619,000	4.09	670,500	2.50
Forfeited – vested	(30,333)	5.98	(38,666)	5.88
Forfeited – unvested	(134,834)	3.32	(24,667)	5.43
Balance, end of period	2,280,500	4.08	1,826,667	4.05

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

The Company recognized compensation expense of $187 thousand and $642 thousand (2010 - $130 thousand and $435 thousand) during the three and nine months ended September 30, 2011 based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate between 2% and 4%, expected volatility between 40.4% and 56.0% and zero expected dividends.

d) Basic and diluted shares

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	36,692,058	19,726,733	36,692,058	19,743,329
Dilutive effect of stock options	344,043	-	326,238	-
Dilutive effect of convertible debentures	-	5,537,333	-	2,384,112
Diluted weighted average shares outstanding	37,036,101	25,264,066	37,018,296	22,127,441

10 Income taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Current tax expense (recovery)	2,376	(1,455)	1,979	217
Deferred tax expense	2,454	2,916	5,670	2,325
Income tax expense	4,830	1,461	7,649	2,542

11 Capital structure

The Company's objectives when managing capital are to provide flexibility so as to maximize opportunities and to finance the growth of the Company. The Company's capital structure consists of shareholders' equity, an operating line of credit, finance leases and long-term debt.

	September 30, 2011	**December 31, 2010**
	$	**$**
Long-term debt	31,500	-
Finance leases	8,977	9,944
Total debt	40,477	9,944
Total equity	156,165	140,884
Less: cash and cash equivalents	(6,000)	(8,416)
Total capitalization	190,642	142,412

The Company manages capital and makes adjustments taking into consideration changing market conditions and other opportunities, while remaining cognizant of the cyclical nature of the energy services sector. In order to maintain or adjust its capital structure, the Company may modify its capital spending, issue shares, and add or repay debt. The Company may also revise the terms of its credit facilities as a result of expansion and growth activities.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

The Company also manages capital to ensure compliance with the margin requirements and financial covenants on its credit facilities. The Company monitors compliance with these requirements on an ongoing basis and forecasts regularly to assess how certain activities may impact compliance in future periods. As at September 30, 2011, the Company is in compliance with respect to these covenants. The Company also monitors non-GAAP measures, specifically EBITDA, which is calculated as net income plus interest, taxes, depreciation and amortization, non-controlling interest, loss on foreign exchange, loss on disposal of property, plant and equipment, accretion of convertible debentures, less gain on foreign exchange, and gain on disposal of property, plant and equipment. The Company's management uses EBITDA to evaluate the financial performance of each division.

12 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. The fair value of accounts receivable, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Long term debt utilizes floating rates and accordingly its fair market value approximates the carrying value.

	September 30, 2011		December 31, 2010	
	Fair value amount $	Carrying amount $	Fair value amount $	Carrying amount $
Loans and receivables:				
Cash and cash equivalents	6,000	6,000	8,416	8,416
Accounts receivable	58,733	58,733	41,700	41,700
Financial liabilities:				
Accounts payable and accrued liabilities	35,621	35,621	26,755	26,755
Long-term debt	31,500	31,500	-	-

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivable.

The vast majority of the Company's trade receivable are customers involved in the oil and gas industry, and the ultimate collection of the trade receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may affect collection include commodity price. Customer specific factors that may affect collection include commodity prices, the success of drilling programs, well reservoir decline rates and access to capital.

	September 30, 2011 $	December 31, 2010 $
Under 30 days	41,885	20,005
31-60 days	9,250	10,670
61-90 days	4,350	5,325
Over 90 days	3,248	5,700
Trade receivable	58,733	41,700

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

As at September 30, 2011, the Company had a reserve balance of $0.5 million (2010 - $1.5 million) with respect to potentially uncollectible trade accounts. The Company does not have a significant exposure to any individual customer or counter party for the nine months ended September 30, 2011 (2010 - one customer for 13%). No customer accounted for more than 10% of revenue during the nine months ended September 30, 2011.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity position on an ongoing basis and manages liquidity risk by regularly evaluating capital and operating budgets, forecasting cash flows and maintaining sufficient credit facilities to meet financing requirements.

The timing of cash flows relating to financial liabilities are outlined in the table below:

	2012 Less than 1 year $	2013 1 – 2 years $	2014 2 - 3 years $	2015 3 – 4 years $	2016 4 – 5 years $
Accounts payable and accrued liabilities	35,621	-	-	-	-
Long-term debt (1)	1,364	1,364	32,618	-	-
Obligations under finance lease (1)	5,342	2,949	1,285	36	-
Total	42,327	4,313	33,903	36	-

(1) Includes principal and interest

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

i) Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to foreign exchange risk associated with its U.S. operations where revenues, costs, and purchases of capital assets are denominated in U.S. dollars. The Company is also exposed to foreign exchange risk as certain balances within working capital may fluctuate due to changing Canada/U.S. exchange rates. The exposure is considered to be low. As such, the Company does not utilize derivative financial instruments with respect to foreign exchange.

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its borrowings which are at floating rates.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

For the nine month period ending September 30, 2011, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately $177 thousand higher (2010 - $207 thousand), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher.

The Company had no interest rate swap or financial contracts in place as at or during the period ended September 30, 2011.

13 Segment reporting

The Company operates in Canada and the United States through two business segments: Drilling Services and Production Services. Drilling Services includes a comprehensive range of drilling-related products and services, including a wide range of environmental solutions. Production Services includes mechanical services, production equipment packaging and electrical and instrumentation services.

For the three months ended September 30, 2011	**Drilling**	**Production**	**Corporate**	**Total**
	$	$	$	$
Revenue	62,675	15,446	-	78,121
Depreciation and amortization	5,117	958	98	6,173
Net interest expense	1,135	26	(647)	514
Earnings before income tax and non-controlling interests	12,984	118	(339)	12,763
Income tax expense	4,719	7	104	4,830
Capital expenditures [(1)]	4,568	48	465	5,081

For the three months ended September 30, 2010	**Drilling**	**Production**	**Corporate**	**Total**
	$	$	$	$
Revenue	25,985	15,630	-	41,615
Depreciation and amortization	2,661	1,051	63	3,775
Net interest expense	411	28	321	760
Earnings before income tax and non-controlling interests	6,833	(531)	(2,073)	4,229
Income tax expense (recovery)	2,198	(209)	(528)	1,461
Capital expenditures [(1)]	9,702	1,549	13	11,264

For the nine months ended September 30, 2011	**Drilling**	**Production**	**Corporate**	**Total**
	$	$	$	$
Revenue	126,174	49,308	-	175,482
Depreciation and amortization	13,227	2,975	258	16,460
Net interest expense	2,867	82	(1,691)	1,258
Earnings before income tax and non-controlling interests	19,948	(713)	1,824	21,059
Income tax expense (recovery)	7,336	(237)	550	7,649
Capital expenditures [(1)]	54,968	(46)	630	55,552
Goodwill	17,277	18,727	-	36,004
Total assets	198,821	56,193	5,561	260,575

(1) Capital expenditures do not include purchases of intangible assets or assets acquired under finance lease.

(amounts in tables in thousands of Canadian dollars, except share and per share amounts)

For the nine months ended September 30, 2010	Drilling	Production	Corporate	Total
	$	$	$	$
Revenue	62,021	46,662	-	108,683
Depreciation and amortization	7,388	3,099	180	10,667
Net interest expense	738	68	975	1,781
Earnings before income tax and non-controlling interests	13,042	571	(5,699)	7,914
Income tax expense (recovery)	3,980	16	(1,454)	2,542
Capital expenditures [1]	27,544	1,754	41	29,339
Goodwill	17,277	18,727	-	36,004
Total assets	106,739	58,080	626	165,445

(1) Capital expenditures do not include purchases of intangible assets or assets acquired under finance lease.

The Company operates in two main geographic regions namely Canada and the United States. Revenue and assets from Canada and the United States are as follows:

Revenue by geography	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Canada	48,526	28,838	121,276	85,835
USA	29,595	12,777	54,206	22,848
Total	78,121	41,615	175,482	108,683

Assets by geography	As at September 30, 2011	As at December 31, 2010
	$	$
Canada	164,095	151,832
USA	96,480	39,636
Total assets	260,575	191,468