

# **Strad Energy Services Ltd.**

Unaudited Condensed Interim Consolidated Financial Statements  
**As at and for the three months ended March 31, 2014 and 2013**

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

(in thousands of Canadian dollars)

	<b>As at March 31, 2014</b>	<b>As at December 31, 2013</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Trade receivables	46,984	35,569
Inventories (note 4)	5,746	5,788
Prepays and deposits	1,693	1,772
Note receivable (note 5)	264	350
Income taxes receivable	—	40
	<hr/>	<hr/>
	54,687	43,519
Assets held for sale (note 6)	3,156	3,167
<b>Non-current assets</b>		
Property, plant and equipment (note 7)	147,200	142,108
Intangible assets (note 8)	1,546	1,685
Goodwill	17,277	17,277
Deferred income tax assets	144	164
<b>Total assets</b>	<hr/> <b>224,010</b>	<hr/> <b>207,920</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	4,448	1,879
Accounts payable and accrued liabilities	33,075	25,403
Income taxes payable	638	—
Deferred revenue	2,377	785
Current portion of obligations under finance lease (note 10)	1,274	1,887
Dividend payable (note 12)	2,050	2,050
	<hr/>	<hr/>
	43,862	32,004
<b>Non-current liabilities</b>		
Long-term debt (note 11)	38,400	38,500
Obligations under finance lease (note 10)	882	770
Deferred income tax liabilities	8,795	7,797
<b>Total liabilities</b>	<hr/> <b>91,939</b>	<hr/> <b>79,071</b>
<b>Equity</b>		
Share capital (note 12)	117,832	117,824
Contributed surplus (note 12)	11,693	11,612
Accumulated other comprehensive income	1,645	603
Retained earnings (deficit)	901	(1,190)
<b>Total equity</b>	<hr/> <b>132,071</b>	<hr/> <b>128,849</b>
<b>Total liabilities and equity</b>	<hr/> <b>224,010</b>	<hr/> <b>207,920</b>

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

**Strad Energy Services Ltd.**  
**Interim Consolidated Statement of Income and Comprehensive Income**  
**For the three months ended March 31, 2014 and 2013**  
**(Unaudited)**

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

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	51,888	44,723
<b>Expenses</b>		
Operating expenses (note 21)	35,206	28,727
Depreciation	5,301	7,187
Amortization of intangible assets	186	439
Selling, general and administration (note 21)	5,556	5,149
Share-based payments	138	188
(Gain) loss on disposal of property, plant and equipment	(758)	586
Foreign exchange gain	(67)	(121)
Finance fees	88	72
Interest expense	535	714
Loss on assets held for sale	38	158
<b>Income before income tax</b>	<u>5,665</u>	<u>1,624</u>
Income tax expense (note 13)	1,524	561
<b>Net income for the period</b>	<u>4,141</u>	<u>1,063</u>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to net income</b>		
Cumulative translation adjustment	<u>1,042</u>	<u>608</u>
<b>Comprehensive income for the period</b>	<u>5,183</u>	<u>1,671</u>
<b>Earnings per share:</b>		
Basic	\$0.11	\$0.03
Diluted	\$0.11	\$0.03

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

**Strad Energy Services Ltd.**  
**Interim Consolidated Statement of Changes in Equity**  
**(Unaudited)**

(in thousands of Canadian dollars)

	<b><u>Attributable to equity owners of the Company</u></b>				
	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Retained earnings (deficit)</b>	<b>Total equity</b>
	\$	\$	\$	\$	\$
<b>Balance - January 1, 2014</b>	117,824	11,612	603	(1,190)	128,849
Net income for the period	—	—	—	4,141	4,141
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	1,042	—	1,042
<b>Comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>1,042</b>	<b>4,141</b>	<b>5,183</b>
Exercise of options	8	(57)	—	—	(49)
Dividends declared (note 12)	—	—	—	(2,050)	(2,050)
Employee share options:					
Value of services recognized	—	138	—	—	138
<b>Balance - March 31, 2014</b>	<b>117,832</b>	<b>11,693</b>	<b>1,645</b>	<b>901</b>	<b>132,071</b>
<b>Balance - January 1, 2013</b>	<b>117,462</b>	<b>11,016</b>	<b>(1,451)</b>	<b>1,632</b>	<b>128,659</b>
Net income for the period	—	—	—	1,063	1,063
Other comprehensive loss (net of tax):					
Cumulative translation adjustment	—	—	608	—	608
<b>Comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>608</b>	<b>1,063</b>	<b>1,671</b>
Exercise of options	—	(30)	—	—	(30)
Shareholder loan repayments	5	—	—	—	5
Dividend declared	—	—	—	(2,048)	(2,048)
Employee share options:					
Value of services recognized	—	188	—	—	188
<b>Balance - March 31, 2013</b>	<b>117,467</b>	<b>11,174</b>	<b>(843)</b>	<b>647</b>	<b>128,445</b>

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

**Strad Energy Services Ltd.**  
Interim Consolidated Statement of Cash Flow  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

(in thousands of Canadian dollars)

	<b>2014</b>	<b>2013</b>
<b>Cash flow provided by (used in)</b>	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net income for the period	4,141	1,063
Adjustments for items not affecting cash:		
Depreciation and amortization	5,487	7,626
Deferred income tax expense (note 13)	864	345
Share-based payments (net of cash settlements on share option exercises)	84	158
Interest expense and finance fees	623	786
(Gain) loss on disposal of property, plant and equipment	(758)	586
Loss on assets held for sale (note 6)	38	158
Changes in items of non-cash working capital (note 15)	(1,483)	(4,439)
<b>Net cash generated from operating activities</b>	<b>8,996</b>	<b>6,283</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(8,377)	(2,302)
Proceeds from sale of property, plant and equipment	1,717	695
Purchase of intangible assets	(28)	(363)
Proceeds from assets held for sale (note 6)	81	1,802
Changes in items of non-cash working capital (note 15)	(129)	(2,433)
<b>Net cash used in investing activities</b>	<b>(6,736)</b>	<b>(2,601)</b>
<b>Financing activities</b>		
Proceeds on issuance of long-term debt	—	2,000
Repayment of long-term debt	(100)	(2,000)
Repayment of finance lease obligations (net)	(501)	(536)
Interest expense and finance fees	(623)	(786)
Payment of dividends (note 12)	(2,050)	(2,048)
Changes in items of non-cash working capital (note 15)	346	—
<b>Net cash used in financing activities</b>	<b>(2,928)</b>	<b>(3,370)</b>
Effect of exchange rate changes on cash and cash equivalents	(1,901)	(990)
<b>Decrease in cash and cash equivalents</b>	<b>(2,569)</b>	<b>(678)</b>
<b>Cash and cash equivalents (bank indebtedness) – beginning of year</b>	<b>(1,879)</b>	<b>(2,488)</b>
<b>Cash and cash equivalents (bank indebtedness) – end of period</b>	<b>(4,448)</b>	<b>(3,166)</b>
Cash paid for income tax	—	235
Cash paid for interest	516	674

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

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements For the three months ended March 31, 2014 and 2013 (Unaudited)

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(in thousands of Canadian dollars)

### 1 General information

Strad Energy Services Ltd. (the “Company”), is an energy services company that focuses on providing well-site infrastructure solutions to the oil and natural gas industry in Canada and the United States (U.S.).

The Company is a publicly listed company incorporated and domiciled in Canada under the legislation of the Province of Alberta. The condensed interim consolidated financial statements of the Company for the period-ended March 31, 2014, and 2013, comprise the Company and its subsidiaries.

The head office, principal address and records office of the Company are located at 440 2nd Avenue 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 May 7, 2014.

### 2 Basis of preparation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34, “*Interim Financial Reporting*”, and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2013.

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued, effective and outstanding as of May 7, 2014, 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, 2014, could result in restatement of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s IFRS annual consolidated financial statements at December 31, 2013.

**Strad Energy Services Ltd.**  
Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

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(in thousands of Canadian dollars)

**3 Changes in accounting policy and disclosures**

In December 2011, the IASB issued amendments to IAS 32, "*Financial Instruments: Presentation*" ("IAS 32"), to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. The adoption of this standard has not had a material impact on the Company's condensed interim consolidated financial statements.

IFRIC 21, "*Levies*" ("IFRIC 21"), sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognized. Practice differs particularly when a levy is measured based on financial data relating to a period before the date on which the obligation to pay the levy arises. IFRIC 21 addresses the accounting for a liability to pay a levy recognized in accordance with IAS 37, "*Provisions, Contingent Liabilities and Contingent Assets*", and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, "*Income taxes*". The adoption of this standard has not had a material impact on the Company's condensed interim consolidated financial statements.

There were no new or amended standards issued during the three months ended March 31, 2014, that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2013.

**4 Inventories**

	<b>As at March 31, 2014</b>	<b>As at December 31, 2013</b>
Raw materials	\$ 3,108	\$ 3,103
Work in progress	146	256
Finished goods	2,492	2,429
	<u>5,746</u>	<u>5,788</u>

The cost of inventories recognized as expense and included in 'Operating expenses' for the three months ended March 31, 2014, amounted to \$9.8 million (2013 - \$5.4 million). During the three months ended March 31, 2014 and 2013 the Company had no write-downs of inventories to net realizable value.

**Strad Energy Services Ltd.**  
Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

(in thousands of Canadian dollars)

**5 Note receivable**

	As at March 31, 2014	As at December 31, 2013
Three-year note receivable	\$ 264	\$ 350
Current portion	264	350
Long-term portion	—	—

On December 12, 2011, the Company sold its investment in Strad Controls Ltd. As part of the consideration, the Company received a ninety-day, non-interest bearing note receivable for \$1.0 million, which was repaid in full on March 11, 2012, and a second \$1.0 million three-year note receivable due December 12, 2014.

The repayment terms of the three-year note calls for monthly blended payments of principal and interest of \$30 thousand commencing January 12, 2012, and ending December 12, 2014. The three-year note bears interest at 5.0% annually.

**6 Assets held for sale**

	Land and building	Equipment – Canadian Operations	Equipment – U.S. Operations	Total
As at December 31, 2013	\$ 2,127	\$ 435	\$ 605	\$ 3,167
Divestitures	—	—	(119)	(119)
Foreign currency translation	84	—	24	108
As at March 31, 2014	2,211	435	510	3,156

Assets held for sale are accounted for at the lower of carrying value and fair value less costs to sell.

Land and building

The Company intends to sell land and building that were purchased in April 2012 for \$1.4 million. Improvements of \$1.2 million were made to the property since initial acquisition. For the three months ended March 31, 2014, no impairment loss was recognized on the land and building held for sale.

Land and building held for sale are included in the U.S. Operations segment (note 16).

Rental Equipment

As at December 31, 2013, the Company classified rental equipment with a collective carrying value of \$1.0 million as assets held for sale. For the three months ended March 31, 2014, no impairment loss was recognized on the rental equipment.

The rental equipment is included in the Canadian Operations and U.S. Operations segments (see note 16).

**Strad Energy Services Ltd.**  
Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
(Unaudited)

(in thousands of Canadian dollars)

**7 Property, plant and equipment**

**Cost**

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2013	188,528	15,830	6,203	2,978	2,197	215,736
Capital expenditures	7,677	526	161	8	5	8,377
Divestitures	(242)	(2,922)	(15)	(102)	—	(3,281)
Transfers	(551)	—	—	—	—	(551)
Reclassification	67	(71)	—	—	—	(4)
Foreign currency translation	3,935	149	22	38	23	4,167
As at March 31, 2014	199,414	13,512	6,371	2,922	2,225	224,444

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2012	188,628	16,398	5,910	2,595	2,020	215,551
Capital expenditures	1,657	510	65	63	7	2,302
Divestitures	(1,629)	(569)	(12)	(8)	—	(2,218)
Transfers	(2,326)	(1)	—	—	—	(2,327)
Foreign currency translation	2,059	77	12	20	24	2,192
Other	—	71	46	—	3	120
As at March 31, 2013	188,389	16,486	6,021	2,670	2,054	215,620

**Accumulated Depreciation**

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2013	57,914	9,225	3,180	1,585	1,724	73,628
Depreciation	4,280	605	229	171	67	5,352
Divestitures	(147)	(2,065)	(6)	(102)	(1)	(2,321)
Transfers	(551)	—	—	—	(2)	(553)
Reclassification	46	(53)	—	—	3	(4)
Foreign currency translation	1,045	55	9	21	12	1,142
As at March 31, 2014	62,587	7,767	3,412	1,675	1,803	77,244

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2012	45,674	7,524	2,891	1,033	1,387	58,509
Depreciation	5,997	750	236	128	76	7,187
Divestitures	(402)	(416)	(2)	(5)	—	(825)
Transfers	(2,324)	(2)	—	—	—	(2,326)
Impairment loss	658	29	(260)	9	6	442
Other	—	—	6	—	—	6
As at March 31, 2013	49,603	7,885	2,871	1,165	1,469	62,993

**Net book value**

As at December 31, 2013	130,614	6,605	3,023	1,393	473	142,108
As at March 31, 2014	136,827	5,745	2,959	1,247	422	147,200

<sup>(1)</sup> Other includes land, buildings and computer hardware

Included in Rental equipment and Automotive equipment are assets under financial lease with a net carrying amount of \$415 thousand (2013 - \$139 thousand) and \$3.0 million (2013 - \$4.9 million) respectively.

**Strad Energy Services Ltd.**  
Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

(in thousands of Canadian dollars)

**8 Intangible assets**

**Cost**

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	\$ 7,200	\$ 3,025	\$ 900	\$ 1,947	\$ 13,072
Capital expenditures	—	11	—	17	28
Foreign currency translation	—	8	—	29	37
As at March 31, 2014	7,200	3,044	900	1,993	13,137

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	7,200	2,652	900	1,733	12,485
Capital expenditures	—	60	—	303	363
Foreign currency translation	—	—	—	10	10
As at March 31, 2013	7,200	2,712	900	2,046	12,858

**Accumulated Amortization**

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	\$ 7,200	\$ 2,029	\$ 898	\$ 1,260	\$ 11,387
Amortization	—	66	2	118	186
Foreign currency translation	—	6	—	12	18
As at March 31, 2014	7,200	2,101	900	1,390	11,591

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	6,899	1,242	837	786	9,764
Amortization	207	77	17	138	439
Foreign currency translation	—	—	—	5	5
As at March 31, 2013	7,106	1,319	854	929	10,208

**Net Book Value**

As at December 31, 2013	—	996	2	687	1,685
As at March 31, 2014	—	943	—	603	1,546

**9 Bank indebtedness**

The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of \$15.0 million CAD and \$10.0 million USD and an \$85.0 million revolving facility, both of which are subject to certain limitations on accounts receivable, inventory and net book value of fixed assets and are secured by a general security agreement over the Company's assets. The syndicated banking facility bears interest at a variable rate, which is dependent on the Company's funded debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements For the three months ended March 31, 2014 and 2013 (Unaudited)

(in thousands of Canadian dollars)

Based on the Company's current funded debt to EBITDA ratio, the interest rate on the syndicated 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. The syndicated credit facility matures on July 25, 2016. For the three months ended March 31, 2014, the overall effective rate on the operating facility was 4.20% (2013 - 4.03%). At March 31, 2014, \$4.4 million (2013 - \$3.2 million) was drawn on the operating facility. All bank covenants are in compliance as at March 31, 2014.

### 10 Obligations under finance lease

	As at March 31, 2014	As at December 31, 2013
Equipment under finance lease	\$ 2,156	\$ 2,657
Current portion	1,274	1,887
Long-term portion	882	770

The finance leases bear interest ranging from 1% to 9% at March 31, 2014.

### 11 Long-term debt

	As at March 31, 2014	As at December 31, 2013
Revolving facility	\$ 38,400	\$ 38,500
Current portion	—	—
Long-term portion	38,400	38,500

As at March 31, 2014, the Company had access to the maximum available \$85.0 million revolving facility (see note 9) of which \$38.4 million was drawn. Required monthly payments are interest only with the principal due July 25, 2016. The overall effective rate on the revolving facility at March 31, 2014, was 3.48% (2013 - 3.46%).

### 12 Share capital

#### a) Authorized

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

As at March 31, 2014, there are no Class B, C, D, E or F shares outstanding.

**Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

**(Unaudited)**

(in thousands of Canadian dollars)

**b) Issued and outstanding**

	Three months ended March 31, 2014		Year-ended December 31, 2013	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of period	37,251,301	117,824	37,251,301	117,462
Shareholder loan – repayment	—	6	—	516
Shareholder loan – issuance	—	—	—	(130)
Interest on shareholder loans	—	(6)	—	(24)
Exercise of options	2,000	8	—	—
Total common shares, end of period	37,253,301	117,832	37,251,301	117,824

**c) Share-based payments**

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.

	As at March 31, 2014		As at December 31, 2013	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,326,834	\$3.80	2,145,334	\$3.99
Granted	631,000	\$3.68	660,000	\$3.42
Exercised	(46,997)	\$2.96	(78,499)	\$2.50
Expired – vested	(145,000)	\$4.00	(42,000)	\$6.50
Forfeited – vested	(11,331)	\$4.31	(252,825)	\$4.21
Forfeited – unvested	(38,339)	\$3.74	(105,176)	\$1.08
Balance, end of period	2,716,167	\$3.78	2,326,834	\$3.80

The Company recognized compensation expense of \$138 thousand during the three months ended March 31, 2014, (2013 - \$188 thousand). During the three months ended March 31, 2014, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate - 1.62%, expected volatility - 41%, forfeiture rate of 15% and an expected quarterly dividend of 5.5 cents per share.

**Strad Energy Services Ltd.**Notes to the Interim Consolidated Financial Statements  
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**(Unaudited)**

(in thousands of Canadian dollars)

**d) Contributed surplus**

	<b>Three months ended March 31, 2014</b>	<b>Year-ended December 31, 2013</b>
Balance, beginning of year	\$ 11,612	\$ 11,016
Share-based payments expense	138	590
Exercise of options	(57)	(48)
Other	—	54
Balance, end of period	11,693	11,612

**e) Per share amounts**

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Basic weighted average shares outstanding	36,730,284	36,532,859
Dilutive effect of stock options	223,730	92,995
Dilutive effect of shareholder loans	521,639	718,442
Diluted weighted average shares outstanding	37,475,653	37,344,296

**f) Dividend payable**

On January 10, 2014, the Company paid a dividend of 5.5 cents per share. On February 26, 2014, the Company's Board of Directors declared a dividend of 5.5 cents per share, payable on April 11, 2014, to shareholders of record at the close of business on March 31, 2014.

**13 Income tax**

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Current income tax expense	\$ 660	\$ 216
Deferred income tax expense	864	345
Income tax expense	1,524	561

**Strad Energy Services Ltd.**Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

(in thousands of Canadian dollars)

**14 Commitments and contingencies**

The Company has operating lease commitments for equipment and buildings for the next five years as follows:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
2014	\$ 5,039	\$ 4,905
2015	3,888	3,791
2016	3,242	3,171
2017	2,380	2,333
2018	1,639	1,601
2019 and thereafter	4,402	4,349
	<b>20,590</b>	<b>20,150</b>

The Company is involved in a limited number of legal claims associated with the normal course of operations. The Company believes it has made adequate provisions for such legal claims. There are no individually or collectively significant claims.

**15 Changes in non-cash working capital**

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Trade receivables	\$ (11,415)	\$ (1,390)
Inventories	42	700
Prepays and deposits	79	196
Income taxes receivable	40	(20)
Note receivable	86	164
Accounts payable and accrued liabilities	7,672	(4,667)
Deferred revenue	1,592	(160)
Notes payable	—	(476)
Income taxes payable	638	—
Restructuring provision	—	(1,219)
Changes in items of non-cash working capital	<b>(1,266)</b>	<b>(6,872)</b>
Changes in items of non-cash working capital – Investing activities	(129)	(2,433)
Changes in items of non-cash working capital - Financing activities	346	—
Changes in items of non-cash working capital - Operating activities	(1,483)	(4,439)
Changes in items of non-cash working capital	<b>(1,266)</b>	<b>(6,872)</b>

**Strad Energy Services Ltd.**  
Notes to the Interim Consolidated Financial Statements  
For the three months ended March 31, 2014 and 2013  
**(Unaudited)**

(in thousands of Canadian dollars)

**16 Segment information**

The Executive Management team is the Company's chief operating decision-maker. Management has determined the operating segments to be Canadian Operations, U.S. Operations, Product Sales and Corporate based on the information reviewed by the Executive Management team for the purposes of allocating resources and assessing performance.

The Executive Management team views the business as two separate sources of revenue. The primary source of revenue is generated from the Company's core business of providing well-site infrastructure solutions to exploration and production companies in the oil and natural gas industry. The Company's core business is split geographically between Canada and the U.S. The Company's second source of revenue, Product Sales, is derived from manufactured Product Sales to external customers, third party equipment sales to existing customers plus sales of equipment from the Company's existing fleet to customers.

The Corporate segment consists of costs incurred to operate a public company, including a portion of the Executive Management team, corporate accounting, rent and utilities and external professional services.

A portion of corporate costs directly related to the Company's core business are allocated to Canadian Operations, U.S. Operations and Product Sales.

<b>Three months ended March 31, 2014</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 21,384	\$ 14,851	\$ 15,653	\$ —	\$ 51,888
Depreciation and amortization	2,080	3,069	225	113	5,487
Interest expense	24	51	14	446	535
Finance fees	—	—	—	88	88
Earnings (loss) before income tax	4,899	407	2,043	(1,684)	5,665
Income tax expense	940	137	421	26	1,524
Capital expenditures <sup>(1)</sup>	6,492	1,881	2	2	8,377
Goodwill	7,675	9,602	—	—	17,277
Total assets	113,476	107,933	658	1,943	224,010

<b>Three months ended March 31, 2013</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 17,742	\$ 13,979	\$ 13,002	\$ —	\$ 44,723
Depreciation and amortization	4,082	3,179	220	145	7,626
Interest expense	32	207	18	457	714
Finance fees	—	—	—	72	72
Earnings (loss) before income tax	2,505	1,043	(353)	(1,571)	1,624
Income tax expense	141	241	121	58	561
Capital expenditures <sup>(1)</sup>	35	1,892	367	8	2,302
Goodwill	7,675	9,602	—	—	17,277
Total assets	108,133	112,512	1,724	4,194	226,563

<sup>(1)</sup> Capital expenditures do not include purchases of intangible assets.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements For the three months ended March 31, 2014 and 2013 (Unaudited)

(in thousands of Canadian dollars)

Revenue from continuing operations by geography	Three months ended March 31,	
	2014	2013
Canada	36,765	29,999
U.S.	15,123	14,724
Total	51,888	44,723

	As at March 31, 2014			As at March 31, 2013		
	Capital assets & goodwill	Other assets	Total assets	Capital assets & goodwill	Other assets	Total assets
Canada	77,750	38,326	116,076	78,794	35,256	114,050
U.S.	88,273	19,661	107,934	93,914	18,599	112,513
Total	166,023	57,987	224,010	172,708	53,855	226,563

During the three months ended March 31, 2014, the Product Sales segment had intercompany sales of \$0.1 million (2013 - \$0.4 million) to the Canadian Operations segment and \$0.8 million (2013 - \$0.1 million) to the U.S. Operations segment, not included in the revenue figures above. Intercompany sales consist of in-house manufactured capital assets and inventory which are sold to the Canadian Operations and U.S. Operations segments. These transactions are eliminated upon consolidation.

### 17 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, and to mitigate downside risk in changing economic environments. The Company's capital structure consists of shareholders' equity, bank indebtedness, long-term debt and finance leases.

	As at March 31, 2014	As at December 31, 2013
Bank indebtedness	4,448	1,879
Long-term debt	38,400	38,500
Finance leases	2,156	2,657
Total debt	45,004	43,036
Total equity	132,071	128,849
Total capitalization	177,075	171,885

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 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 debt facilities as a result of expansion and growth activities.

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 March 31, 2014, the Company is in compliance with respect to these covenants.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

(Unaudited)

(in thousands of Canadian dollars)

### 18 Financial instruments

The Company's financial instruments consist of trade receivables, prepaids and deposits, note receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, obligations under finance lease and dividends payable.

#### 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 receivables.

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

	As at March 31, 2014	As at December 31, 2013
Under 30 days	\$ 36,257	\$ 25,857
31-60 days	8,407	5,531
61-90 days	1,803	3,168
Over 90 days	517	1,013
Trade receivables	46,984	35,569

As at March 31, 2014, the Company had an allowance for doubtful accounts of \$0.7 million (2013 - \$0.7 million) with respect to potentially uncollectible accounts. The Company has significant exposure to one customer that accounted for 15% (2013 - 15%) of revenue from continuing operations for the period ended March 31, 2014. No other customer accounted for more than 10% of revenue from continuing operations.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk at the reporting date is the carrying value of the trade and note receivables. None of these financial assets, other than the \$0.7 million of trade receivables above for which a reserve balance has been taken, are impaired.

#### 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.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements For the three months ended March 31, 2014 and 2013 (Unaudited)

(in thousands of Canadian dollars)

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

	2014	2015	2016	2017	2018
	Less than 1 year	1 – 2 years	2 - 3 years	3 – 4 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 33,075	\$ —	\$ —	\$ —	\$ —
Bank indebtedness <sup>(1)</sup>	4,635	—	—	—	—
Long-term debt <sup>(1)</sup>	1,335	1,335	38,824	—	—
Obligations under finance lease <sup>(1)</sup>	1,211	559	479	32	—
Dividends payable	2,050	—	—	—	—
Total	42,306	1,894	39,303	32	—

<sup>(1)</sup> 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 USD. 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. For the period ended March 31, 2014, if the exchange rate had weakened by 1% against the Canadian dollar with all other variables constant, after tax net earnings would have decreased by \$1 thousand (2013 - \$3 thousand). An equal and opposite impact would have occurred to after tax net earnings if the exchange rate had strengthened by 1% against the Canadian dollar.

#### 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. For the period ended March 31, 2014, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately \$81 thousand higher (2013 - \$116 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 March 31, 2014.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements For the three months ended March 31, 2014 and 2013 (Unaudited)

(in thousands of Canadian dollars)

### 19 Fair value measurement

#### Fair values of financial assets and liabilities

The Company's financial instruments consist of trade receivables, deposits, note receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, obligations under finance lease and dividends payable. The fair value of trade receivables, note receivable, bank indebtedness, accounts payable and accrued liabilities, obligations under finance lease and dividends payable approximate their carrying amounts due to their short terms to maturity. The Company's long-term debt carries interest based on specified benchmark interest rates plus a spread. The fair values of the Company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk.

	As at March 31, 2014		As at December 31, 2013	
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
<b>Loans and receivables:</b>				
Trade receivables	46,984	46,984	35,569	35,569
Deposits	578	578	557	557
Note receivable	264	264	350	350
<b>Financial liabilities:</b>				
Bank indebtedness	4,448	4,448	1,879	1,879
Accounts payable and accrued liabilities	33,075	33,075	25,403	25,403
Long-term debt	38,400	38,400	38,500	38,500
Obligations under finance lease	2,156	2,156	2,657	2,657
Dividends payable	2,050	2,050	2,050	2,050

### 20 Related party transactions

#### Loans to key management

The share purchase loans outstanding with key management are shown below:

	As at March 31, 2014	As at December 31, 2013
Opening balance	\$ 1,467	\$ 1,845
Share purchase loans issued	—	99
Repayment of share purchase loan	—	(459)
Interest charged	6	25
Interest paid	(6)	(43)
	1,467	1,467

# **Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

**(Unaudited)**

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(in thousands of Canadian dollars)

Certain key management personnel and directors have loans outstanding totaling \$1.5 million from the Company. Proceeds of the loans were used to purchase common shares in the Company. The loan balances are non-interest bearing for the first three years the loan balances are outstanding. After three years, the notes bear interest at the prime lending rate per annum established by the Company's bank, plus 1% interest. The loans are required to be repaid in full on the maturity date, being 10 years from the date of issuance.

For the period ended March 31, 2014, there were no loan advances made to key management (year-ended December 31, 2013 - \$99 thousand) and loan principal repayments of \$nil were received (year-ended December 31, 2013 - \$459 thousand).

For the period ended March 31, 2014, interest of \$6 thousand was charged by the Company on loans to key management (year-ended December 31, 2013 - \$25 thousand) and interest repayments of \$6 thousand were received (year-ended December 31, 2013 - \$43 thousand).

### **21 Comparative figures**

Certain selling, general and administration figures for the previous period have been reclassified to operating expenses to conform to the change in presentation in these March 31, 2014, financial statements.