

# **Strad Energy Services Ltd.**

Unaudited Condensed Interim Consolidated Financial Statements  
**For the three and nine months ended September 30, 2013 and 2012**

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

(in thousands of Canadian dollars)

	<b>As at September 30, 2013</b>	<b>As at December 31, 2012</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Trade receivables	35,631	33,418
Inventories (note 3)	6,888	12,022
Prepays and deposits	1,774	2,379
Current portion of notes receivable (note 4)	690	665
Income taxes receivable	318	1,526
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	45,301	50,010
Assets held for sale (note 5)	2,690	4,728
<b>Non-current assets</b>		
Property, plant and equipment (note 6)	139,660	157,042
Intangible assets (note 7)	2,237	2,721
Notes receivable (note 4)	208	729
Goodwill	17,277	17,277
Deferred income tax assets	75	198
<b>Total assets</b>	<hr/> <b>207,448</b>	<hr/> <b>232,705</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 8)	4,079	2,488
Accounts payable and accrued liabilities	20,548	24,244
Deferred revenue	1,465	160
Current portion of obligations under finance lease (note 9)	2,374	2,735
Note payable (note 10)	1,029	1,492
Dividend payable (note 13)	2,050	2,050
Restructuring provision (note 11)	544	3,813
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	32,089	36,982
<b>Non-current liabilities</b>		
Long-term debt (note 12)	39,000	55,500
Obligations under finance lease (note 9)	777	2,285
Deferred income tax liabilities	7,787	9,279
<b>Total liabilities</b>	<hr/> <b>79,653</b>	<hr/> <b>104,046</b>
<b>Equity</b>		
Share capital (note 13)	117,840	117,462
Contributed surplus (note 13)	11,469	11,016
Accumulated other comprehensive loss	(449)	(1,451)
Retained (deficit) earnings	(1,065)	1,632
<b>Total equity</b>	<hr/> <b>127,795</b>	<hr/> <b>128,659</b>
<b>Total liabilities and equity</b>	<hr/> <b>207,448</b>	<hr/> <b>232,705</b>

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

## Strad Energy Services Ltd.

### Interim Consolidated Statement of Income

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Continuing operations</b>				
<b>Revenue</b>	47,425	51,094	141,724	161,699
<b>Expenses</b>				
Operating expenses	29,703	30,796	89,823	97,655
Depreciation	7,025	6,952	22,755	19,477
Amortization of intangible assets	234	410	954	1,141
Selling, general and administration	7,145	8,050	21,613	24,568
Share-based payments	155	218	438	580
Loss on disposal of property, plant and equipment	162	22	824	46
Foreign exchange (gain) loss	(63)	510	(202)	879
Finance fees	88	63	231	179
Interest expense	784	854	2,289	1,936
Loss on assets held for sale	—	—	175	—
<b>Income before income tax from continuing operations</b>	2,192	3,219	2,824	15,238
Income tax (recovery) expense (note 15)	(181)	260	(625)	4,051
<b>Net income from continuing operations for the period</b>	2,373	2,959	3,449	11,187
<b>Income from discontinued operations, net of tax (note 16)</b>	—	—	—	437
<b>Net income for the period</b>	2,373	2,959	3,449	11,624
<b>Net income attributable to:</b>				
Owners of the parent	2,373	2,937	3,449	11,269
Non-controlling interests	—	22	—	355
	2,373	2,959	3,449	11,624
<b>Earnings per share from continuing operations attributable to the equity owners of the Company:</b>				
Basic	\$0.06	\$0.08	\$0.09	\$0.30
Diluted	\$0.06	\$0.08	\$0.09	\$0.29
<b>Earnings per share from discontinued operations attributable to the equity owners of the Company:</b>				
Basic	\$0.00	\$0.00	\$0.00	\$0.01
Diluted	\$0.00	\$0.00	\$0.00	\$0.01
<b>Earnings per share from total operations attributable to the equity owners of the Company:</b>				
Basic	\$0.06	\$0.08	\$0.09	\$0.31
Diluted	\$0.06	\$0.08	\$0.09	\$0.30

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

**Strad Energy Services Ltd.**

## Interim Consolidated Statement of Comprehensive Income

For the three and nine months ended September 30, 2013 and 2012

**(Unaudited)**

(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Net income for the period</b>	2,373	2,959	3,449	11,624
<b>Other comprehensive (loss) income</b>				
<b>Items that may be reclassified subsequently to net income</b>				
Cumulative translation adjustment	(766)	(1,002)	1,002	(1,171)
<b>Total other comprehensive (loss) income</b>	(766)	(1,002)	1,002	(1,171)
<b>Comprehensive income for the period</b>	1,607	1,957	4,451	10,453
<b>Comprehensive income attributable to:</b>				
Owners of the parent	1,607	1,935	4,451	10,098
Non-controlling interests	—	22	—	355
	1,607	1,957	4,451	10,453

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

(in thousands of Canadian dollars)

	<b>Attributable to equity owners of the Company</b>						
	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings (deficit) \$	Total \$	Non- controlling interest \$	Total equity \$
<b>Balance - January 1, 2013</b>	117,462	11,016	(1,451)	1,632	128,659	—	128,659
Net income for the period	—	—	—	3,449	3,449	—	3,449
Other comprehensive income (net of tax):							
Cumulative translation adjustment	—	—	1,002	—	1,002	—	1,002
Comprehensive income for the period	—	—	1,002	3,449	4,451	—	4,451
Exercise of options	—	(39)	—	—	(39)	—	(39)
Shareholder loan repayments (net of interest) (note 13)	408	—	—	—	408	—	408
Shareholder loans issued (note 13)	(30)	—	—	—	(30)	—	(30)
Dividends declared (note 13)	—	—	—	(6,146)	(6,146)	—	(6,146)
Employee share options:							
Value of services recognized	—	438	—	—	438	—	438
Other	—	54	—	—	54	—	54
<b>Balance - September 30, 2013</b>	<b>117,840</b>	<b>11,469</b>	<b>(449)</b>	<b>(1,065)</b>	<b>127,795</b>	<b>—</b>	<b>127,795</b>
<b>Balance - January 1, 2012</b>	157,042	3,017	(585)	(28,260)	131,214	2,059	133,273
Net income for the period	—	—	—	11,269	11,269	355	11,624
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	—	—	(1,171)	—	(1,171)	—	(1,171)
Comprehensive (loss) income for the period	—	—	(1,171)	11,269	10,098	355	10,453
Reduction of stated capital	(39,086)	9,234	—	29,852	—	—	—
Exercise of options	24	(66)	—	—	(42)	—	(42)
Shareholder loan repayments	271	—	—	—	271	—	271
Shareholder loans issued	(579)	—	—	—	(579)	—	(579)
Purchase of non-controlling interest	—	(821)	—	(1,592)	(2,413)	(2,214)	(4,627)
Dividend declared	—	—	—	(4,097)	(4,097)	—	(4,097)
Employee share options:							
Value of services recognized	—	383	—	—	383	—	383
Reversal of cumulative translation adjustment on purchased non-controlling interest	—	61	—	—	61	—	61
Other	—	5	—	—	5	4	9
<b>Balance - September 30, 2012</b>	<b>117,672</b>	<b>11,813</b>	<b>(1,756)</b>	<b>7,172</b>	<b>134,901</b>	<b>204</b>	<b>135,105</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 nine months ended September 30, 2013 and 2012  
**(Unaudited)**

(in thousands of Canadian dollars)

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Cash flow provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	3,449	11,624
Adjustments for items not affecting cash:		
Depreciation and amortization	23,709	20,618
Deferred income tax (recovery) expense	(1,561)	2,176
Share-based payments (net of cash settlement on stock option exercises)	399	383
Interest expense and finance fees	2,520	2,115
Loss on disposal of property, plant and equipment	824	46
Loss on sale of investment in subsidiary (note 16)	—	441
Loss on assets held for sale (note 5)	175	—
Changes in items of non-cash working capital (note 17)	3,453	1,457
<b>Net cash generated from operating activities</b>	<b>32,968</b>	<b>38,860</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(4,944)	(53,451)
Proceeds from sale of property, plant and equipment	1,574	1,060
Purchase of intangible assets	(463)	(1,355)
Proceeds on sale of subsidiaries	—	7,129
Purchase of assets held for sale (note 5)	(125)	(2,094)
Proceeds from sale of assets held for sale	1,876	—
Purchase of non-controlling interest (note 14)	—	(4,627)
Changes in items of non-cash working capital (note 17)	(4,565)	(5,521)
<b>Net cash (used) in investing activities</b>	<b>(6,647)</b>	<b>(58,859)</b>
<b>Financing activities</b>		
Proceeds on issuance of long-term debt	2,000	33,000
Repayment of long-term debt	(18,500)	(3,000)
Repayment of finance lease obligations (net)	(1,869)	(3,199)
Issue of share capital	—	24
Issue of shareholder loan (net of repayments) (note 13)	378	(308)
Interest expense and finance fees	(2,520)	(2,115)
Payment of dividends	(6,146)	(2,049)
Changes in items of non-cash working capital (note 17)	219	(242)
<b>Net cash (used) generated from financing activities</b>	<b>(26,438)</b>	<b>22,111</b>
Effect of exchange rate changes on cash and cash equivalents	(1,474)	148
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,591)</b>	<b>2,260</b>
<b>Cash and cash equivalents (including bank indebtedness) – beginning of year</b>	<b>(2,488)</b>	<b>(5,570)</b>
<b>Cash and cash equivalents (including bank indebtedness) – end of period</b>	<b>(4,079)</b>	<b>(3,310)</b>
<b>Cash and cash equivalents - included in liabilities of disposal group (note 16)</b>	<b>—</b>	<b>(205)</b>
<b>Cash and cash equivalents (including bank indebtedness) – end of period</b>	<b>(4,079)</b>	<b>(3,515)</b>
Cash paid for income tax	1,290	5,521
Cash paid for interest	2,106	2,191

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 and nine months ended September 30, 2013 and 2012

**(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 September 30, 2013, and 2012, 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 November 5, 2013.

### 2 Basis of preparation

The Company prepares its 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.

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued and outstanding as of November 5, 2013, the date the Board approved the statements. The policies applied in these condensed interim consolidated financial statements are consistent with those applied in the Company's annual financial statements, with the exception of new standards adopted January 1, 2013, as disclosed in the Company's condensed interim consolidated financial statements for the three month period ended March 31, 2013 and 2012. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2013, 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, 2012.

### 3 Inventories

	<b>As at September 30, 2013</b>	<b>As at December 31, 2012</b>
Raw materials	\$ 4,050	\$ 4,924
Work in progress	108	118
Finished goods	2,730	6,980
	<b>6,888</b>	<b>12,022</b>

The cost of inventories recognized as expense and included in ‘Operating expenses’ for the nine months ended September 30, 2013, amounted to \$40.7 million (2012 - \$38.6 million). During the nine months ended September 30, 2013, the Company had no write-downs of inventories to net realizable value (2012 - nil).

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

(in thousands of Canadian dollars)

#### 4 Notes receivable

	As at September 30, 2013	As at December 31, 2012
Three-year notes receivable	\$ 898	\$ 1,394
Current portion	690	665
Long-term portion	208	729

On January 12, 2012, the Company sold its investment in Strad Production Services Ltd. and Sunwell Industries Ltd. (see note 16). As part of the consideration, the Company received a \$1.0 million three year note receivable due January 12, 2015.

The repayment terms of the three-year notes call for monthly blended payments of principal and interest of \$30 thousand commencing January 12, 2012, and February 12, 2012, respectively, and ending December 12, 2014, and January 12, 2015, respectively. The three-year notes bear interest at 5.0% annually.

#### 5 Assets held for sale

	Land and building	Equipment – Canadian	Equipment – U.S. Operations	Total
As at December 31, 2012	\$ 2,481	\$ 648	\$ 1,599	\$ 4,728
Additions	125	—	—	125
Divestitures	—	(540)	(1,511)	(2,051)
Foreign currency translation	84	—	20	104
Other	—	(108)	(108)	(216)
As at September 30, 2013	2,690	—	—	2,690

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 with a collective carrying value of \$2.7 million. The land and building were purchased in April 2012 for \$1.4 million and improvements of \$1.2 million were made to the property since initial acquisition. For the nine months ended September 30, 2013, 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 18).

##### Communications equipment

As at December 31, 2012, the assets related to the Company's Communications business unit located in Canada and the U.S. were presented as held for sale following the Company's December 4, 2012 Board approval of a sale and disposition of these assets.

As at September 30, 2013, all Communications equipment has been disposed of.



# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012  
(Unaudited)

(in thousands of Canadian dollars)

### 6 Property, plant and equipment

#### Cost

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
As at December 31, 2012	\$ 168	\$ 328	\$ 6,700	\$ 1,217	\$ 1,524	\$ 5,910
Capital expenditures	—	—	722	17	25	213
Divestitures	—	(14)	(856)	—	(8)	(494)
Transfers	—	—	(23)	—	—	—
Reclassification	—	141	3,001	39	(39)	306
Foreign currency translation	17	1	2	17	13	19
Other	—	—	103	—	3	56
As at September 30, 2013	185	456	9,649	1,290	1,518	6,010

#### Assets Under Finance Lease

	Leasehold improvements	Rental equipment	Rental equipment	Automotive equipment	Total
As at December 31, 2012	\$ 1,378	\$ 181,616	\$ 7,012	\$ 9,698	\$ 215,551
Capital expenditures	136	3,831	—	340	5,284
Divestitures	(8)	(4,929)	(111)	(1,051)	(7,471)
Transfers	—	(7,523)	(15)	(2)	(7,563)
Reclassification	—	5,551	(5,631)	(3,368)	—
Foreign currency translation	13	3,296	—	117	3,495
Other	—	(42)	117	—	237
As at September 30, 2013	1,519	181,800	1,372	5,734	209,533

#### Accumulated Depreciation

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
As at December 31, 2012	\$ —	\$ 284	\$ 3,013	\$ 474	\$ 1,103	\$ 2,891
Depreciation	—	15	957	157	208	684
Divestitures	—	(1)	(467)	—	(8)	(373)
Transfers	—	—	(24)	—	—	—
Reclassification	—	73	2,577	39	(39)	325
Foreign currency translation	—	—	5	5	7	(260)
Other	—	—	9	—	—	7
As at September 30, 2013	—	371	6,070	675	1,271	3,274

#### Net book value

As at December 31, 2012	168	44	3,687	743	421	3,019
As at September 30, 2013	185	85	3,579	615	247	2,736

**Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

**(Unaudited)**

(in thousands of Canadian dollars)

	<i>Assets Under Finance Lease</i>					Total
	Leasehold improvements	Rental equipment	Rental equipment	Automotive equipment		
As at December 31, 2012	\$ 559	\$ 42,474	\$ 3,200	\$ 4,511	\$	58,509
Depreciation	214	18,842	477	1,201		22,755
Divestitures	(5)	(2,959)	(111)	(712)		(4,636)
Transfers	—	(7,528)	(15)	(2)		(7,569)
Reclassification	—	2,431	(2,474)	(2,932)		—
Foreign currency translation	6	945	—	85		793
Other	—	(10)	15	—		21
As at September 30, 2013	774	54,195	1,092	2,151		69,873

**Net book value**

As at December 31, 2012	819	139,142	3,812	5,187	157,042
As at September 30, 2013	745	127,605	280	3,583	139,660

**7 Intangible assets****Cost**

	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	—	339	—	124	463
Transfers	—	(5)	—	—	(5)
Foreign currency translation	—	11	—	8	19
As at September 30, 2013	7,200	2,997	900	1,865	12,962

**Accumulated Amortization**

	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	301	242	50	361	954
Transfers	—	—	—	—	—
Foreign currency translation	—	4	—	3	7
As at September 30, 2013	7,200	1,488	887	1,150	10,725

**Net Book Value**

As at December 31, 2012	301	1,410	63	947	2,721
As at September 30, 2013	—	1,509	13	715	2,237

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012  
(Unaudited)

(in thousands of Canadian dollars)

#### 8 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. 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. On July 18, 2013, the Company amended its syndicated credit facility, extending the maturity date to July 25, 2016. For the nine months ended September 30, 2013, the overall effective rate on the operating facility was 4.36% (2012 - 4.21%). At September 30, 2013, \$4.1 million (2012 - \$2.5 million) was drawn on the operating facility. All bank covenants are in compliance as at September 30, 2013.

#### 9 Obligations under finance lease

	As at September 30, 2013	As at December 31, 2012
Equipment under finance lease	\$ 3,151	\$ 5,020
Current portion	2,374	2,735
Long-term portion	777	2,285

The finance leases bear interest ranging from 1% to 9% at September 30, 2013.

#### 10 Note payable

	As at September 30, 2013	As at December 31, 2012
1.5 year note payable	\$ 1,029	\$ 1,492
Current portion	1,029	1,492
Long-term portion	—	—

On May 31, 2012, a note payable of \$1.5 million was issued as part of consideration paid for the acquisition of the remaining shares of the non-controlling interest in a subsidiary (note 14).

On February 28, 2013, a principal repayment of \$0.5 million was made. The \$1.0 million principal balance owing is due November 30, 2013. Accumulated interest will be paid at the end of the term on November 30, 2013. The note bears interest at 3.0% annually.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

(in thousands of Canadian dollars)

#### 11 Restructuring provision

	As at September 30, 2013	As at December 31, 2012
Opening balance	\$ 3,813	\$ —
Additions	—	3,813
Restructuring costs incurred	(3,269)	—
Closing balance	544	3,813

#### 12 Long-term debt

	As at September 30, 2013	As at December 31, 2012
Revolving facility	\$ 39,000	\$ 55,500
Current portion	—	—
Long-term portion	39,000	55,500

As at September 30, 2013, the Company had access to \$79.0 million of the maximum available \$85.0 million revolving facility (see note 8) of which \$39.0 million (2012- \$55.5 million) was drawn. Monthly payments are interest only with the principal due July 25, 2016. The overall effective rate on the revolving facility at September 30, 2013, was 3.51% (2012 – 3.77%).

#### 13 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, 2013, there are no Class B, C, D, E or F shares outstanding.

##### b) Issued and outstanding

	Nine months ended September 30, 2013		Year-ended December 31, 2012	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of period	37,251,301	117,462	37,246,384	157,042
Shareholder loan – repayment	—	410	—	271
Shareholder loan – issuance	—	(30)	—	(772)
Interest on shareholder loans	—	(2)	—	(17)
Reduction of stated capital	—	—	—	(39,086)
Exercise of options	—	—	4,917	24
Total common shares, end of period	37,251,301	117,840	37,251,301	117,462

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

(in thousands of Canadian dollars)

#### 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 September 30, 2013		As at December 31, 2012	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,145,334	\$3.99	2,209,499	\$4.10
Granted	660,000	\$3.42	1,002,500	\$4.46
Exercised	(71,999)	\$2.50	(39,994)	\$3.83
Expired – vested	(42,000)	\$6.50	(380,000)	\$5.54
Forfeited – vested	(252,159)	\$4.21	(301,329)	\$4.85
Forfeited – unvested	(97,842)	\$4.12	(345,342)	\$3.60
Balance, end of period	2,341,334	\$3.80	2,145,334	\$3.99

The Company recognized compensation expense of \$438 thousand during the nine months ended September 30, 2013, and \$383 thousand net of recoveries of \$197 thousand included in income from discontinued operations during the nine months ended September 30, 2012. During the nine months ended September 30, 2013, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate between 1% and 2%, expected volatility between 43% and 44%, forfeiture rate of 15% and an expected quarterly dividend of 5.5 cents per share.

#### d) Contributed surplus

	Nine months ended September 30, 2013	Year-ended December 31, 2012
Balance, beginning of year	\$ 11,016	\$ 3,017
Share-based payments expense - continuing operations	438	819
Share-based payments (recovery) – discontinued operations	—	(197)
Exercise of options	(39)	(60)
Reduction of stated capital	—	9,234
Repurchase of minority interest	—	(1,854)
Non-controlling interest	—	61
Other	54	(4)
Balance, end of period	11,469	11,016

**Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

**(Unaudited)**

(in thousands of Canadian dollars)

**e) Per share amounts**

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Basic weighted average shares outstanding	36,620,968	36,623,239	36,575,105	36,683,260
Dilutive effect of stock options	137,356	247,461	93,831	374,813
Dilutive effect of shareholder loans	630,333	628,062	676,196	565,212
Diluted weighted average shares outstanding	37,388,657	37,498,762	37,345,132	37,623,285

**f) Dividend payable**

On January 11, 2013, April 12, 2013, and July 12, 2013, the Company paid a dividend of 5.5 cents per share. On August 15, 2013, the Company's Board of Directors declared a dividend of 5.5 cents per share, payable on October 11, 2013, to shareholders of record at the close of business on September 30, 2013.

**14 Transactions with non-controlling interests**

The effect of changes in the ownership interests in the subsidiaries on the equity attributable to owners of the Company during the period is summarized as follows:

		Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Carrying amount of non-controlling interests acquired	\$	—	\$ —	\$ —	2,214
Less: consideration paid to non-controlling interests		—	—	—	4,627
Excess of consideration paid recognized in owner's equity		—	—	—	(2,413)

**15 Income tax**

		Three months ended September 30,		Nine months ended September 30,	
		2013	2012	2013	2012
Current income tax expense	\$	627	\$ 788	\$ 936	1,875
Deferred income tax (recovery) expense		(808)	(528)	(1,561)	2,176
Income tax (recovery) expense		(181)	260	(625)	4,051

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements

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### 16 Discontinued operations

On December 1, 2011, the Company announced its decision to initiate the sale of its Production Services Division.

On January 12, 2012, the Company completed the sale of its Production Services Division with the sale of its 100% shareholding in Strad Production Services Ltd. and Sunwell Industries Ltd. to a related party, being a former executive of the Company. The Company received proceeds of \$8.4 million consisting of \$7.4 million cash and a \$1.0 million note receivable (see note 4).

#### Consolidated statement of income from discontinued operations

	Three months ended September 30,		Nine months ended September 30,			
	2013	2012	2013	2012		
<b>Analysis of the results of discontinued operations:</b>						
Revenue	\$	—	\$	—	\$	1,321
Expense		—		—		1,150
Income from ordinary activities of discontinued operations		—		—		171
Tax recovery		—		—		707
Income after tax of ordinary activities of discontinued operations		—		—		878
(Loss) recognized on sale of investment in subsidiary <sup>(1)</sup>		—		—		(441)
After-tax income from discontinued operations <sup>(2)</sup>		—		—		437

<sup>(1)</sup> After December 31, 2011, re-measurement of assets of disposal group to fair value less costs to sell.

<sup>(2)</sup> All of the income (loss) from discontinued operations is attributable to owners of the parent.

	Three months ended September 30,		Nine months ended September 30,			
	2013	2012	2013	2012		
Current income tax recovery from discontinued operations	\$	—	\$	—	\$	707
Deferred income tax from discontinued operations		—		—		—
Income tax recovery from discontinued operations		—		—		707

#### Consolidated statement of cash flow from discontinued operations

	Three months ended September 30,		Nine months ended September 30,			
	2013	2012	2013	2012		
<b>The net cash flows attributable to the operating, investing and financing activities of discontinued operations:</b>						
Operating cash flows	\$	—	\$	—	\$	205
Investing cash flows		—		—		—
Financing cash flows		—		—		—
Total cash outflow		—		—		205

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

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#### 17 Changes in non-cash working capital

	September 30, 2013	September 30, 2012
Trade receivables	\$ (2,213)	\$ 6,695
Inventories	5,134	(494)
Prepays and deposits	605	1,514
Income taxes receivable	1,208	—
Notes receivable	496	1,481
Accounts payable and accrued liabilities	(3,696)	(8,855)
Deferred revenue	1,305	(2,113)
Notes payable	(463)	1,476
Income taxes payable	—	(4,010)
Restructuring provision	(3,269)	—
Operating, investing and financing activities	(893)	(4,306)
Accounts payable and accrued liabilities – investing activities	(4,565)	(5,521)
Prepays, accounts payable and accrued liabilities - financing activities	219	(242)
Operating activities	3,453	1,457

#### 18 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.

Interest expense is allocated to the operating segments based on the portion of lending required to fund capital expenditures during the year.



**Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

**(Unaudited)**

(in thousands of Canadian dollars)

<b>Three months ended September 30, 2013</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 19,129	\$ 13,580	\$ 14,716	\$ —	\$ 47,425
Depreciation and amortization	3,717	3,213	194	135	7,259
Interest expense	44	227	14	499	784
Finance fees	—	—	—	88	88
Earnings (loss) before income tax	1,015	(2,653)	2,632	1,198	2,192
Income tax (recovery) expense	(203)	(898)	837	83	(181)
Capital expenditures <sup>(1)</sup>	2,313	1,725	61	25	4,124

<b>Three months ended September 30, 2012</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 19,165	\$ 16,550	\$ 15,379	\$ —	\$ 51,094
Depreciation and amortization	3,828	3,217	197	120	7,362
Interest expense	8	31	15	800	854
Finance fees	—	—	—	63	63
Earnings (loss) before income tax and non-controlling interests	1,666	(911)	1,276	1,188	3,219
Income tax expense (recovery)	452	(777)	162	423	260
Capital expenditures <sup>(1)</sup>	3,882	4,181	314	3	8,380

<sup>(1)</sup> Capital expenditures do not include purchases of intangible assets or assets acquired under finance lease and are net of rental asset disposals.

**Strad Energy Services Ltd.**

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

**(Unaudited)**

(in thousands of Canadian dollars)

<b>Nine months ended September 30, 2013</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 51,202	\$ 40,343	\$ 50,179	\$ —	\$ 141,724
Depreciation and amortization	13,162	9,533	593	421	23,709
Interest expense	1,802	826	208	(547)	2,289
Finance fees	—	—	—	231	231
(Loss) earnings before income tax	(3,757)	(4,442)	7,319	3,704	2,824
Income tax (recovery) expense	(255)	(1,386)	827	189	(625)
Capital expenditures <sup>(1)</sup>	627	4,357	264	36	5,284
Goodwill	7,675	9,602	—	—	17,277
Total Assets	100,269	103,089	838	3,252	207,448

<b>Nine months ended September 30, 2012</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 56,616	\$ 57,401	\$ 47,682	\$ —	\$ 161,699
Depreciation and amortization	10,800	9,060	438	320	20,618
Interest expense	460	145	33	1,298	1,936
Finance fees	—	—	—	179	179
Earnings (loss) before income tax and non-controlling interests	5,279	5,596	5,460	(1,097)	15,238
Income tax expense	1,905	1,401	141	604	4,051
Capital expenditures <sup>(1)</sup>	22,147	30,334	913	57	53,451
Goodwill	7,675	9,602	—	—	17,277
Total Assets	104,255	118,872	8,339	4,861	236,327

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

Revenue from continuing operations by geography	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Canada	33,811	32,826	98,182	100,684
U.S.	13,614	18,268	43,542	61,015
Total	47,425	51,094	141,724	161,699

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

(in thousands of Canadian dollars)

	As at September 30, 2013			As at September 30, 2012		
	Capital assets & goodwill	Other assets	Total assets	Capital assets & goodwill	Other assets	Total assets
Canada	73,424	30,935	104,359	79,219	38,235	117,454
U.S.	85,750	17,339	103,089	98,576	20,297	118,873
Total	159,174	48,274	207,448	177,795	58,532	236,327

During the nine months ended September 30, 2013, the Product Sales segment had intercompany sales of \$1.7 million (2012 - \$3.9 million) to the Canadian Operations segment and \$1.4 million (2012 - \$9.2 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.

## 19 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, note payable and finance leases.

	As at September 30, 2013	As at December 31, 2012
Bank indebtedness	4,079	2,488
Long-term debt	39,000	55,500
Note payable	1,029	1,492
Finance leases	3,151	5,020
Total debt	47,259	64,500
Total equity	127,795	128,659
Total capitalization	175,054	193,159

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 September 30, 2013, the Company is in compliance with respect to these covenants.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012

(Unaudited)

(in thousands of Canadian dollars)

#### 20 Financial instruments

The Company's financial instruments consist of trade receivables, notes receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt, note payable, 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 September 30, 2013	As at December 31, 2012
Under 30 days	\$ 27,572	\$ 21,225
31-60 days	6,730	7,419
61-90 days	956	3,425
Over 90 days	373	1,349
Trade receivables	35,631	33,418

As at September 30, 2013, the Company had an allowance for doubtful accounts of \$0.7 million (2012 - \$0.4 million) with respect to potentially uncollectible accounts. The Company has significant exposure to one customer that accounted for 11% (2012 - 10%) of revenue from continuing operations for the period ended September 30, 2013. 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

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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	\$ 20,548	\$ —	\$ —	\$ —	\$ —
Bank indebtedness <sup>(1)</sup>	4,257	—	—	—	—
Long-term debt <sup>(1)</sup>	1,368	1,368	40,117	—	—
Obligations under finance lease <sup>(1)</sup>	2,519	465	360	—	—
Note payable <sup>(1)</sup>	1,087	—	—	—	—
Dividend payable	2,050	—	—	—	—
Total	31,829	1,833	40,477	—	—

<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. The Company does not utilize derivative financial instruments with respect to foreign exchange. For the period ended September 30, 2013, 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 \$17 thousand (2012 - \$21 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 September 30, 2013, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately \$317 thousand higher (2012 - \$380 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, 2013.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

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(Unaudited)

(in thousands of Canadian dollars)

#### 21 Fair value measurement

##### Fair values of financial assets and liabilities

The Company's financial instruments consist of trade receivables, notes receivable, bank indebtedness, accounts payable and accrued liabilities, note payable, long-term debt, obligations under finance lease and dividends payable. The fair value of trade receivables, notes receivable, bank indebtedness, accounts payable and accrued liabilities, note payable, 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 September 30, 2013		As at December 31, 2012	
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
<b>Loans and receivables:</b>				
Trade receivables	35,631	35,631	33,418	33,418
Notes receivable	898	898	1,394	1,394
<b>Financial liabilities:</b>				
Bank indebtedness	4,079	4,079	2,488	2,488
Accounts payable and accrued liabilities	20,548	20,548	24,244	24,244
Note payable	1,029	1,029	1,492	1,492
Long-term debt	39,000	39,000	55,500	55,500
Obligations under finance lease	3,151	3,151	5,020	5,020
Dividends payable	2,050	2,050	2,050	2,050

#### 22 Related party transactions

##### Loans to key management

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

	As at September 30, 2013		As at December 31, 2012	
Opening balance	\$	1,845	\$	1,157
Share purchase loans issued		—		772
Repayment of share purchase loan		(381)		(101)
Interest charged		18		17
Interest paid		(30)		—
		1,452		1,845

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.

## **Strad Energy Services Ltd.**

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For the period ended September 30, 2013, there were no loan advances made to key management (year-ended December 31, 2012 - \$772 thousand) and loan principal repayments of \$381 thousand were received (year-ended December 31, 2012 - \$101 thousand).

For the period ended September 30, 2013, interest of \$18 thousand was charged by the Company on loans to key management (year-ended December 31, 2012 - \$17 thousand) and interest repayments of \$30 thousand were received (year-ended December 31, 2012 – nil).

#### **23 Future accounting pronouncements**

In May 2013, the IASB released an amendment to IAS 36, "Impairment of Assets". This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The amendment is effective January 1, 2014. Early adoption is permitted.

#### **24 Comparative figures**

Finance fees for the previous period have been reclassified to conform to the change in presentation in these September 30, 2013 financial statements.