Strad Energy Services Ltd.

Consolidated Financial Statements
December 31, 2011 and 2010

Independent Auditor's Report

To the Shareholders of
Strad Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Strad Energy Services Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, comprehensive income, statement of changes in equity and cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Strad Energy Services Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 1, 2012

Strad Energy Services Ltd.

Consolidated Statement of Financial Position

As at December 31, 2011, 2010 and January 1, 2010

(in thousands of Canadian dollars)	As at December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	-	8,416	-
Trade receivables	49,466	41,700	18,547
Inventories (note 6)	7,950	15,171	17,935
Prepaids and deposits	4,263	2,887	981
Current portion of note receivable (note 7)	1,352	-	-
Income taxes receivable	-	241	195
	63,031	68,415	37,658
Non-current assets			
Property, plant and equipment (note 8)	126,439	70,128	40,810
Intangible assets (note 9)	2,752	11,446	14,856
Note receivable (note 7)	683	-	-
Goodwill (note 10)	17,277	36,004	36,004
Deferred income taxes (note 17)	2,873	5,475	2,447
	213,055	191,468	131,775
Assets of disposal group classified as held for sale (note 18)	14,056	-	-
Total assets	227,111	191,468	131,775
Liabilities			
Current liabilities			
Bank indebtedness (note 11)	5,570	-	13,249
Accounts payable and accrued liabilities (note 12)	30,812	26,755	13,081
Deferred revenue	2,245	3,387	119
Current portion of long-term debt (note 13)	-	-	3,587
Current portion of obligations under finance lease (note 14)	4,383	4,662	3,957
Income taxes payable	3,392	36	-
	46,402	34,840	33,993
Non-current liabilities			
Long-term debt (note 13)	23,500	-	11,214
Obligations under finance lease (note 14)	3,282	5,282	5,765
Deferred income tax liabilities (note 17)	13,666	10,462	5,281
Other long-term liabilities	-	-	278
	86,850	50,584	56,531
Liabilities of disposal group classified as held for sale (note 18)	6,988	-	-
Total liabilities	93,838	50,584	56,531
Equity			
Equity attributable to owners of the parent			
Share capital (note 15)	157,042	157,071	99,091
Contributed surplus (note 15)	3,017	2,221	1,661
Accumulated other comprehensive loss	(585)	(832)	-
Deficit	(28,260)	(18,235)	(25,544)
	131,214	140,225	75,208
Non-controlling interests	2,059	659	36
Total equity	133,273	140,884	75,244
Total liabilities and equity	227,111	191,468	131,775

Commitments (note 19)

Subsequent event (note 26)

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

Strad Energy Services Ltd.

Consolidated Statement of Income

For the year ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011	2010
	$	$
Continuing operations		
Revenue	188,272	89,484
Expenses		
Operating expenses	106,417	48,099
Depreciation	17,785	8,974
Amortization of intangible assets	1,413	1,603
Finance costs	-	35
Selling, general administration	28,903	17,090
Share-based payments	643	558
(Gain) on disposal of property, plant and equipment	(185)	(98)
Foreign exchange (gain) loss	(262)	637
Interest expense	1,796	2,248
Income before income tax from continuing operations	31,762	10,338
Income tax (note 17)	10,562	3,626
Net income from continuing operations for the year	21,200	6,712
(Loss) income from discontinued operations, net of tax (note 18)	(29,852)	1,312
Net (loss) income for the year	(8,652)	8,024
Net (loss) income attributable to:		
Owners of the parent	(10,025)	7,309
Non-controlling interests	1,373	715
	(8,652)	8,024
Earnings per share from continuing operations attributable to the equity owners of the Company:		
Basic	$0.54	$0.28
Diluted	$0.54	$0.26
(Loss) earnings per share from discontinued operations attributable to the equity owners of the Company:		
Basic	($0.81)	$0.06
Diluted	($0.81)	$0.05
(Loss) earnings per share from total operations attributable to the equity owners of the Company:		
Basic	($0.27)	$0.34
Diluted	($0.27)	$0.30

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

Strad Energy Services Ltd.

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011 $	2010 $
Net (loss) income for the year	(8,652)	8,024
Other comprehensive (loss)		
Cumulative translation adjustment	274	(924)
Total other comprehensive (loss)	274	(924)
Comprehensive (loss) income for the year	(8,378)	7,100
Comprehensive (loss) income attributable to:		
Owners of the parent	(9,778)	6,477
Non-controlling interests	1,400	623
	(8,378)	7,100

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

Strad Energy Services Ltd.

Consolidated Statement of Changes in Equity

(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	(832)	(18,235)	140,225	659	140,884
Net (loss) income for the period	-	-	-	(10,025)	(10,025)	1,373	(8,652)
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	247	-	247	27	274
Comprehensive income (loss) for the period	-	-	247	(10,025)	(9,778)	1,400	(8,378)
Share issuance costs	(147)	-	-	-	(147)	-	(147)
Shareholder loan	118	-	-	-	118	-	118
Employee share options:							
Value of services recognized	-	796	-	-	796	-	796
Balance – December 31, 2011	157,042	3,017	(585)	(28,260)	131,214	2,059	133,273
Balance – January 1, 2010	99,091	1,661	-	(25,544)	75,208	36	75,244
Net income for the period	-	-	-	7,309	7,309	715	8,024
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	(832)	-	(832)	(92)	(924)
Comprehensive income (loss) for the period	-	-	(832)	7,309	6,477	623	7,100
Issued on private placements	645	-	-	-	645	-	645
Issued on IPO	45,000	-	-	-	45,000	-	45,000
Issued on conversion of convertible debentures	16,781	-	-	-	16,781	-	16,781
Share issuance costs	(2,967)	-	-	-	(2,967)	-	(2,967)
Share repurchases	(19)	2	-	-	(17)	-	(17)
Shareholder loan	(1,460)	-	-	-	(1,460)	-	(1,460)
Employee share options:							
Value of services recognized	-	558	-	-	558	-	558
Balance – December 31, 2010	157,071	2,221	(832)	(18,235)	140,225	659	140,884

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

Strad Energy Services Ltd.

Consolidated Statement of Cash Flow

For the year ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

	2011 $	2010 $
Cash flow provided by (used in)		
Operating activities		
Net income for the year	(8,652)	8,024
Adjustments for:		
Depreciation and amortization	22,802	14,710
Finance costs	-	35
Deferred income tax	7,123	3,469
Share-based payments	796	558
Interest expense	1,943	2,350
Gain on disposal of property, plant and equipment	(222)	(129)
Loss/impairment on sale of investment in subsidiary	10,460	-
Loss/impairment on fair value adjustment of assets classified as held for sale	19,888	-
Changes in items of non-cash working capital (note 20)	(13,091)	(6,184)
Net cash generated from operating activities	41,047	22,833
Investing activities		
Purchase of property, plant and equipment	(74,583)	(40,233)
Proceeds from sale of property, plant and equipment	995	1,096
Purchase of intangible assets	(768)	(267)
Proceeds on sale of subsidiary	6,000	-
Net cash used in investing activities	(68,356)	(39,404)
Financing activities		
Proceeds on issuance of long-term debt	61,000	-
Repayment of debt	(37,500)	(14,801)
Repayment of finance lease obligations (net)	(6,168)	(2,203)
Conversion of convertible debentures	-	(35)
Proceeds on issuance of shares	-	57,782
Share issuance costs	(147)	-
Repayment of shareholder loan	118	-
Interest expense	(1,943)	(2,350)
Net cash generated from financing activities	15,360	38,393
Effect of exchange rate changes on cash and cash equivalents	(2,242)	(157)
(Decrease) increase in cash and cash equivalents	(14,191)	21,665
Cash and cash equivalents – beginning of year	8,416	(13,249)
Cash and cash equivalents – end of year	(5,775)	8,416
Cash and cash equivalents – included in liabilities of disposal group (note 18)	(205)	-
Cash and cash equivalents (including bank indebtedness) – end of year	(5,570)	8,416
Cash paid for income tax	-	-

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

(in thousands of Canadian dollars)

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 and domiciled in Canada under the legislation of the Province of Alberta. The consolidated financial statements of the Company as at and for the year ended December 31, 2011, and 2010, comprise the Company and its subsidiaries.

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 consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on March 1, 2012.

2 Basis of preparation and adoption of IFRS

The Company prepares its consolidated 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. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Subject to certain transition elections disclosed in note 4, 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 4 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 year end December 31, 2010.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 1, 2012, the date the Board approved the statements.

Note 4 discloses IFRS information for the year ended December 31, 2010, that is material to an understanding of these consolidated financial statements.

(in thousands of Canadian dollars)

3 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by assets of disposal group classified as held for sale.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2011, that would be expected to have a material impact on the Company.

(ii) New standards, amendments and interpretations issued but not yet effective for the first time for the financial year beginning on or after January 1, 2011, that would be expected to have a material impact on the Company.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. In December 2011, the effective date of IFRS 9 was deferred to years beginning on or after January 1, 2015. The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning January 1, 2015.

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning January 1, 2013.

(in thousands of Canadian dollars)

IFRS 11, 'Joint arrangements' 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 would be proportionately consolidated. The Company is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning January 1, 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning January 1, 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning January 1, 2012.

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

Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders give the Company the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

(in thousands of Canadian dollars)

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between the Company and its subsidiaries are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(ii) Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive management that makes strategic decisions.

(in thousands of Canadian dollars)

Foreign currency translation

(i) Functional and presentation currency

The Company's presentation currency is the Canadian dollar ("$"). The functional currencies of Strad Energy Services Ltd. and its U.S. subsidiaries are the Canadian Dollar and U.S. Dollar ("USD"), respectively. These consolidated financial statements have been translated to the CDN dollar in accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates. This standard requires that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). All resulting translation differences are recognized in other comprehensive income as "Cumulative Translation Adjustment".

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognized in the statement of income.

Significant accounting estimates and judgments

The timely preparation of the consolidated financial statements requires that Management make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgments made by Management in the preparation of these consolidated financial statements are outlined below.

The Company's assets are segregated into cash-generating units based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's cash-generating units is subject to Management's judgment.

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined using the greater of fair value less costs to sell and value-in-use. Fair value less costs to sell and value-in-use calculations require the use of estimates, assumptions and judgements. Value-in-use calculations require management to use assumptions regarding discount rates and estimated future cash flows. Fair value less costs to sell requires management to make judgements of fair value using market conditions as well as estimations of costs to sell.

(in thousands of Canadian dollars)

Amounts recorded for depreciation and amortization are based on the estimated useful lives of the underlying assets. Useful lives are based on Management's best estimate using knowledge of past transactions, and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Company's property, plant and equipment in the future.

Compensation costs accrued for long-term stock-based compensation plans are subject to their fair value estimation by using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Inventory is to be carried at the lower of cost and net realizable value. Management's best estimate of net realizable value is the selling price prevailing in the market.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less and bank indebtedness. In the consolidated balance sheet, bank indebtedness is classified as a current liability, separate from cash and cash equivalents.

Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction and measurement in subsequent periods is dependent on whether the instrument is classified as "fair value through profit and loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "financial liabilities measured at amortized cost".

Financial instruments classified as "fair value through profit and loss" are subsequently re-valued to fair market value with changes in the fair value being recognized into earnings; financial instruments classified as "available-for-sale" are subsequently re-valued to fair market value with changes in the fair value being recognized to other comprehensive income and financial instruments designated as "held-to-maturity", "loans and receivables", and "financial liabilities measured at amortized cost" are valued at amortized cost using the effective interest method of amortization.

Fair values

The Company's financial instruments consist of cash and cash equivalents, trade receivables, notes receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt and finance lease obligations. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

(in thousands of Canadian dollars)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, depreciation on property, plant and equipment, amortization of intangible assets, and related production overhead costs. Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Land is not depreciated. The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Building	20 years
Automotive equipment	5 years
Furniture and fixtures	5 years
Computer hardware	3 years
Tools and equipment	3 – 10 years
Leasehold improvements	Length of current lease
Surface equipment	3 – 15 years

(in thousands of Canadian dollars)

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of (gain) loss on disposal of property, plant and equipment in the statement of income.

Identifiable intangible assets

The Company's intangible assets include patented technology, customer relationships, non-competition covenants and computer software with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

Customer relationships	5 – 10 years
Patent	10 years
Technology asset	10 years
Non-competition covenants	3 – 6 years
Computer software	3 years

Goodwill

Upon acquisition, goodwill is attributed to the applicable cash-generating unit or aggregate cash-generating units that are expected to benefit from the business combination's synergies. Goodwill is attributed to the cash-generating units that collectively form the Canadian Operations and U.S. Operations segments. This represents the lowest level that goodwill is monitored for internal management purposes. Subsequent measurement of goodwill is at cost less any accumulated impairments.

Goodwill, which is calculated as the aggregate of the consideration transferred, the amount of any non-controlling interest, and the fair value of any previously held interest less the fair value of the net assets acquired, is not amortized. Rather, goodwill is tested for impairment at least annually and any resulting impairment loss is recognized in income in the year that it is identified. The recoverable amounts are determined annually based on the greater of its fair value less costs to sell or value in use. Fair value less costs to sell is derived by estimating the discounted after-tax future net cash flows for the aggregated cash-generating units. Discounted future net cash flows are based on forecasted revenues and expenses over the expected economic life of the underlying revenue generating assets and discounted using market rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or cash-generating unit.

(in thousands of Canadian dollars)

Impairment of non-financial assets

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in net income.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction.

Reversals of impairments are recognized when the indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. In this event, the carrying amount of the asset or cash-generating unit is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or cash-generating unit for prior periods.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Current and deferred income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled.

(in thousands of Canadian dollars)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred income tax assets and liabilities are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the cash bonus plan if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(ii) Share-based payments

The Company grants stock options to certain directors, officers and employees. The Company has two option plans. The new plan approved in 2010 includes options which vest over three years and expire after five years. The previous plan includes options which vest over four years and expire after six years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus.

Provisions and contingencies

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected future cash outflows.

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

(in thousands of Canadian dollars)

Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and rewards incidental to ownership of the leased asset. Finance leases are capitalized at the commencement of the lease term measured as the present value of the minimum lease payments. Capitalized leased assets are amortized over the estimated useful life of the assets and the obligations under finance leases are reduced by principal payments. All other leases are classified as operating leases and the payments are recorded as an expense on a straight-line basis over the period of the lease.

Revenue

(i) Services and rental:

The Company's services and rental equipment are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when the service has been provided in accordance with the agreed arrangement, the rate is fixed and determinable, and the collection of the amounts billed to the customer is considered probable. Contract terms do not include a provision for significant post-service delivery obligations.

(ii) Sale of goods:

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

(iii) Contract:

When the outcome of individual contracts can be estimated reliably, contract revenue and contract expenses are recognized as revenue and expenses respectively by reference to the stage of completion at the reporting date. This is measured by surveys of work performed to date. Full provision is made for all known expected losses on individual contracts once such losses are foreseen.

Operating expenses

Included in operating expenses are labour costs of direct field personnel, repair and maintenance costs, trucking costs and costs of sales. Cost of sales includes costs related to shipping, direct salaries and wages, repairs & maintenance, and the cost of finished goods inventory.

(in thousands of Canadian dollars)

Interest expense

Interest expense comprises interest costs on the Company's borrowings and is recognized in profit and loss when incurred. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Company does not capitalize borrowing costs as the Company does not have any qualifying assets.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options granted to directors, officers, and employees.

4 Transition to IFRS

As disclosed in note 2, these consolidated financial statements represent the Company's presentation of the financial results of operations and financial position under IFRS for the period ended December 31, 2011.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010, transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The Company has taken the following exemptions permitted by IFRS 1: 'Business combinations', no retroactive restatement and 'Share based payments', no adjustment to previously vested options.

The following reconciliations present the adjustments made to the Company's previous 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.

(in thousands of Canadian dollars)

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

Deficit		**Dec 31, 2010**	**Jan 1, 2010**
Deficit as reported under Canadian GAAP		$ (17,655)	$ (25,046)
IFRS adjustments increase (decrease)	**4(ii)**		
Share based payments	(a)	(863)	(498)
Deferred tax	(b)	212	-
Foreign currency translation	(c)	71	-
Deficit as reported under IFRS		(18,235)	(25,544)

Equity		**Dec 31, 2010**	**Jan 1, 2010**
Equity as reported under Canadian GAAP [(1)]		$ 141,725	$ 75,244
IFRS adjustments increase (decrease)	**4(ii)**		
Deferred tax	(b)	212	-
Foreign currency translation	(c)	71	-
Accumulated other comprehensive income	(c)	(924)	-
Non-controlling interest	(c)	(200)	-
Equity as reported under IFRS		140,884	75,244

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

Comprehensive income		**Year ended Dec 31, 2010**
As reported under Canadian GAAP		$ 7,391
Increase (decrease) in net income for:	**4(ii)**	
Share-based payments	(a)	(365)
Deferred tax	(b)	212
Foreign currency translation	(c)	74
Increase (decrease) in other comprehensive income for:		
Cumulative translation adjustment	(c)	(924)
As reported under IFRS		6,388

The following discussion explains the significant differences between the Company's previous 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 and alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

(in thousands of Canadian dollars)

(ii) IFRS adjustments

(a) Under previous 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 $365 thousand decrease to the Company's previous GAAP net income for the twelve months ended December 31, 2010. Therefore, the total impact to deficit at December 31, 2010, was an increase of $863 thousand.

(b) Deferred tax has been adjusted to reflect the tax differences arising from the differences between IFRS and previous 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 twelve months ended December 31, 2010, the application of the IFRS adjustments to the tax provision resulted in a $212 thousand decrease to the Company's deferred income tax expense and a corresponding increase to the Company's previous GAAP net earnings.

(c) Under previous GAAP, the functional currency for the Company's US 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 US subsidiary changed from the CDN dollar to the USD dollar in the third quarter of 2010 when revenue generated by the US subsidiary increased substantially as a percentage of total consolidated revenue. The change in functional currency resulted in a decrease in property, plant and equipment of $1.3 million, a decrease in prepaid expenses of $41 thousand, a decrease in non-controlling interest of $200 thousand, a decrease in accumulated other comprehensive income of $924 thousand, net of $295 thousand deferred tax adjustment, and a decrease in deficit of $283 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 $248 thousand at January 1, 2010, and $342 thousand at December 31, 2010.

(in thousands of Canadian dollars)

(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 $2.4 million from current to long-term assets at January 1, 2010, and $697 thousand 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.

5 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 $2 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.

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

6 Inventories

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Raw materials	$ 7,526	$ 10,913	$ 10,792
Work in progress	179	1,358	1,217
Finished goods	245	2,900	5,926
	7,950	15,171	17,935

The cost of inventories recognized as expense and included in 'Operating expenses' amounted to $52.3 million (2010 - $14.9 million).

During the year the Company recorded a write-down of inventories to net realizable value of $412 thousand (2010 - $700 thousand).

(in thousands of Canadian dollars)

7 Notes receivable

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Three-year note receivable	$ 1,000	$ -	$ -
Ninety-day note receivable	1,035	-	-
Less: Current portion	(1,352)	-	-
	683	-	-

On December 12, 2011, the Company sold its investment in Strad Controls Ltd. (see note 18). As part of the consideration, the Company received a ninety-day, non-interest bearing note receivable for $1.0 million due 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 call for monthly blended payments of principle and interest of $30 thousand commencing January 12, 2012, and ending December 12, 2014. The three-year note bears interest at 5.0% compounding monthly.

8 Property, plant & equipment

Cost

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
As at January 1, 2010	$ -	$ 221	$ 3,021	$ 966	$ 1,003	$ 5,457
Capital expenditures	-	143	69	124	222	975
Divestitures	-	-	(252)	(15)	(19)	(35)
Transfers	-	(11)	157	-	-	(1)
Foreign currency translation	-	-	-	(5)	(5)	(6)
As at December 31, 2010	-	353	2,995	1,070	1,201	6,390
Capital expenditures	172	-	2,655	688	542	3,321
Divestitures	-	-	(686)	(72)	(121)	(1,030)
Transfers	-	-	668	-	-	8
Foreign currency translation	-	-	(3)	8	(10)	4
Assets held for sale	-	(43)	(938)	(684)	(260)	(2,897)
As at December 31, 2011	172	310	4,691	1,010	1,352	5,796

			Assets Under Finance Lease		
	Leasehold improvements	Surface equipment	Surface equipment	Automotive equipment	Total
As at January 1, 2010	$ 1,521	$ 32,604	$ 9,351	$ 8,709	$ 62,853
Capital expenditures	255	38,446	-	-	40,234
Divestitures	(3)	(751)	(86)	(742)	(1,903)
Transfers	-	(3,249)	4,085	(2,102)	(1,121)
Assets under finance lease	-	-	3	2,422	2,425
Foreign currency translation	-	(1,446)	-	(14)	(1,476)
As at December 31, 2010	1,773	65,604	13,353	8,273	101,012
Capital expenditures	323	66,881	1	5,023	79,606
Divestitures	(167)	(187)	(354)	(2,170)	(4,787)
Transfers	(641)	1,257	(3,126)	(254)	(2,088)
Assets under financial lease	-	-	-	-	-
Foreign currency translation	1	1,624	-	52	1,676
Assets held for sale	(713)	(2,900)	-	(4,331)	(12,766)
As at December 31, 2011	576	132,279	9,874	6,593	162,653

(in thousands of Canadian dollars)

Accumulated Depreciation

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
	$	$	$	$	$	$
As at January 1, 2010	-	96	1,831	671	762	3,533
Depreciation	-	69	333	143	198	1,056
Divestitures	-	-	(149)	(15)	(13)	(15)
Transfers	-	-	41	-	-	2
Foreign currency translation	-	-	(10)	-	(1)	-
As at December 31, 2010	-	165	2,046	799	946	4,576
Depreciation	-	81	923	185	221	1,039
Divestitures	-	-	(624)	(50)	(106)	(931)
Transfers	-	-	406	-	-	1
Foreign currency translation	-	-	-	-	-	6
Assets held for sale	-	(11)	(823)	(650)	(233)	(2,610)
As at December 31, 2011	-	235	1,928	284	828	2,081
Net book value						
As at January 1, 2010	-	125	1,190	295	241	1,924
As at December 31, 2010	-	188	949	271	255	1,814
As at December 31, 2011	172	75	2,763	726	524	3,715

			Assets Under Finance Lease		
	Leasehold improvements	Surface equipment	Surface equipment	Automotive equipment	Total
As at January 1, 2010	$ 706	$ 8,176	$ 2,902	$ 3,366	$ 22,043
Depreciation	202	6,151	1,661	1,262	11,075
Divestitures	(1)	(175)	(28)	(548)	(944)
Transfers	(2)	(1,094)	204	(272)	(1,121)
Foreign currency translation	-	(161)	-	3	(169)
As at December 31, 2010	905	12,897	4,739	3,811	30,884
Depreciation	252	13,639	1,325	1,847	19,512
Divestitures	(104)	(34)	(271)	(1,433)	(3,553)
Transfers	(402)	(906)	(1,214)	(71)	(2,186)
Foreign currency translation	-	(619)	-	9	(604)
Assets held for sale	(349)	(435)	-	(2,728)	(7,839)
As at December 31, 2011	302	24,542	4,579	1,435	36,214
Net book value					
As at January 1, 2010	815	24,428	6,449	5,343	40,810
As at December 31, 2010	868	52,707	8,614	4,462	70,128
As at December 31, 2011	274	107,737	5,295	5,158	126,439

(in thousands of Canadian dollars)

9 Intangible assets

Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at January 1, 2010	$ 20,558	$ 2,995	$ 1,942	$ 804	$ 26,299
Capital expenditures	-	-	-	267	267
Divestitures	-	-	-	(14)	(14)
As at December 31, 2010	20,558	2,995	1,942	1,057	26,552
Capital expenditures	-	-	-	768	768
Divestitures	-	-	-	(194)	(194)
Transfers	-	-	-	(98)	(98)
Foreign currency translation	-	-	-	4	4
Impairment	(13,358)	(1,095)	(1,142)	(490)	(16,085)
As at December 31, 2011	7,200	1,900	800	1,047	10,947

Accumulated Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at January 1, 2010	$ 8,485	$ 1,071	$ 1,331	$ 556	$ 11,443
Amortization	2,850	300	353	166	3,669
Divestitures	-	-	-	(6)	(6)
As at December 31, 2010	11,335	1,371	1,684	716	15,106
Amortization	2,479	290	234	293	3,296
Divestitures	-	-	-	(146)	(146)
Transfers	-	-	-	-	-
Foreign currency translation	-	-	-	6	6
Impairment	(7,811)	(648)	(1,135)	(473)	(10,067)
As at December 31, 2011	6,003	1,013	783	396	8,195
Net book value					
As at January 1, 2010	12,073	1,924	611	248	14,856
As at December 31, 2010	9,223	1,624	258	341	11,446
As at December 31, 2011	1,197	887	17	651	2,752

(in thousands of Canadian dollars)

10 Goodwill

Management reviews the performance of the business based on its operating segments, which prior to December 1, 2011, were Production Services, Drilling Services and Corporate. Goodwill is monitored at the operating segment level and prior to December 1, 2011, $18.7 million and $17.3 million was allocated to Production Services and Drilling Services, respectively.

On December 1, 2011, the Company announced its strategic decision to dispose of the Production Services Division. The disposition of the Production Services Division was completed January 12, 2012. Included in 'Income (loss) from discontinued operations' on the Statement of Income are the 'Loss on sale of investment in subsidiary' and 'Loss on fair value less costs to sell of assets of disposal group classified as held for sale'. The aforementioned losses include the removal of all goodwill attributable to the aggregated cash-generating unit, the Production Services Division, totaling $18.7 million as the amount was no longer recoverable (see note 18).

In conjunction with the sale of Production Services, management reviewed the remaining operating segment, Drilling Services, and determined new operating segments were required. The Company's new operating segments are Canadian Operations, U.S. Operations, Product Sales and Corporate, as outlined in note 21. As at December 31, 2011, the aggregate carrying amount of goodwill is $17.3 million, and has been allocated to the Canadian Operations and U.S. Operations segments based on relative fair values.

	December 31, 2011
Canadian Operations	$ 7,675
U.S. Operations	9,602
Total	17,277

The recoverable amount of all CGU's has been determined based on value-in-use calculations. It was concluded that the recoverable amount determined using a value-in-use calculation exceeded the carrying amount in both segments, and therefore no impairment was recorded.

Value-in-use was determined by discounting the future cash flows generated from the continuing use of the operating segments. Value-in-use in 2011 was determined similarly as in 2010. Future cash flows were projected over the remaining useful life of the primary assets within each CGU, which is greater than 5 years, using the estimated growth rates shown below.

The key assumptions used for value-in-use calculations in 2011 are as follows:

Gross Margin	25% - 77%
Growth rate	5% - 20%
Discount rate	18%

Projected gross margins and growth rates are based on historical costs and current and projected market conditions in both Canada and the U.S.

(in thousands of Canadian dollars)

11 Bank indebtedness

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 trade receivables, 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 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 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 December 31, 2011, the overall effective rate on the operating facility was 4.30%. At December 31, 2011, $5.6 million was drawn on the operating facility.

12 Accounts payable and accrued liabilities

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Accounts payable	$ 16,993	$ 19,197	$ 9,939
Accrued liabilities	13,819	7,558	3,142
	30,812	26,755	13,081

13 Long-term debt

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Revolving facility	$ 23,500	$ -	$ 10,000
Committed cash flow loan	-	-	4,801
Less: Current portion	-	-	(3,587)
	23,500	-	11,214

As at December 31, 2011, the Company had access to the maximum available $85 million revolving facility (see note 11) of which $23.5 million was drawn. Monthly payments are interest only with the principle due July 26, 2014. The overall effective rate on the revolving facility at December 31, 2011, was 4.34%.

(in thousands of Canadian dollars)

14 Obligations under finance lease

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Equipment under finance lease	$ 7,665	$ 9,944	$ 9,722
Less: Current portion	(4,383)	(4,662)	(3,957)
	3,282	5,282	5,765

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 December 31, 2011, the overall effective rate was 5.48%.

Minimum lease payments for equipment under finance lease for the next five years are as follows:

	December 31, 2011	December 31, 2010
2011	$ -	$ 5,096
2012	4,742	3,993
2013	2,237	1,219
2014	1,137	512
2015	209	-
2016	-	-
Total minimum lease payments	8,325	10,820
Less: Amounts representing future interest at annual rates between 0.12% and 10.8%	(660)	(876)
	7,665	9,944

Included in 'Liabilities of disposal group classified as held for sale' are Obligations under finance lease totaling $1.1 million (see note 18).

(in thousands of Canadian dollars)

15 Share capital

a) Authorized

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

As at December 31, 2011, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	Year ended December 31, 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	-	118	-	(1,460)
Share issue costs	-	(147)	-	(3,988)
Future income taxes	-	-	-	1,021
Total common shares, end of period	37,246,384	157,042	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.

	December 31, 2011		December 31, 2010	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
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	(35,333)	$5.70	(38,666)	$5.88
Forfeited – unvested	(200,835)	$3.36	(24,667)	$5.43
Balance, end of period	2,209,499	$4.10	1,826,667	$4.05

(in thousands of Canadian dollars)

Details of the exercise prices and expiry dates of options outstanding and exercisable at December 31, 2011, are as follows:

	December 31, 2011					
Exercise Price	Outstanding options	Weighted average exercise price	Remaining contractual life (years)	Vested options	Remaining contractual life (years)	Weighted average exercise price
\$2.50 - \$3.99	574,500	\$2.50	4.01	15,750	4.01	\$2.50
\$4.00 - \$4.99	1,022,999	\$4.05	3.36	268,668	2.45	\$4.00
\$5.00 - \$5.99	475,000	\$5.45	0.62	475,000	0.62	\$5.45
\$6.00 - \$6.99	137,000	\$6.50	1.01	137,000	1.01	\$6.50
	2,209,499	\$4.10		896,418		\$5.12

	December 31, 2010					
Exercise Price	Outstanding options	Weighted average exercise price	Remaining contractual life (years)	Vested options	Remaining contractual life (years)	Weighted average exercise price
\$2.50 - \$3.99	664,500	\$2.50	5.02	-	-	\$0.00
\$4.00 - \$4.99	526,167	\$4.00	3.59	110,417	3.15	\$4.00
\$5.00 - \$5.99	475,000	\$5.45	1.62	475,000	1.62	\$5.45
\$6.00 - \$6.50	161,000	\$6.50	2.01	107,320	2.01	\$6.50
	1,826,667	\$4.05		692,737		\$5.38

The Company recognized compensation expense of \$796 thousand (2010 - \$558 thousand) during the year ended December 31, 2011, based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate between 2% and 4%, expected volatility between 40.45% and 55.96% and zero expected dividends..

d) Contributed surplus

	December 31, 2011	**December 31, 2010**
Balance, beginning of year	\$ 2,221	\$ 1,661
Share-based payments expense - continuing operations	643	558
Share-based payments expense - discontinued operations	153	-
Share repurchases	-	2
Balance, end of year	3,017	2,221

e) Per share amounts

	Year Ended December 31,	
	2011	**2010**
Basic weighted average shares outstanding	36,692,058	21,405,667
Dilutive effect of stock options	305,505	244,865
Dilutive effect of convertible debentures	-	2,602,407
Diluted weighted average shares outstanding	36,997,563	24,252,939

(in thousands of Canadian dollars)

16 Employee benefits expense

Included in 'Operating expenses' and 'Selling, general and administration' are the following employee benefits expenses:

	December 31, 2011	December 31, 2010
Wages and benefits	$ 33,002	$ 19,464

The Company does not have a pension plan and no other post-employment benefits were paid in the year.

17 Income taxes

	December 31, 2011	December 31, 2010
Current income tax expense (recovery)	$ 3,271	$ (336)
Deferred income tax expense	7,291	3,962
Income tax expense	10,562	3,626

The income taxes reported differ from the amounts computed by applying the statutory federal and provincial income tax rates to income before income taxes. The reasons for these differences and the related tax effects are as follows:

	December 31, 2011	December 31, 2010
Net income from continuing operations before income taxes and non-controlling interests	$ 31,762	$ 10,338
Income taxes at statutory rate (2011 – 26.5%, 2010 – 28%)	8,417	2,894
Permanent differences	(250)	145
Prior period amendments	(280)	-
Adjustments related to filed and amended tax returns	603	(610)
Tax in higher rate foreign jurisdictions	2,145	900
Change in income tax rates	(61)	(9)
Other	(12)	306
Income tax expense (recovery)	10,562	3,626

The Company has provided for deferred income taxes on differences between values at which assets and liabilities are recorded in the consolidated financial statements and their values for tax filing purposes.

(in thousands of Canadian dollars)

The components of deferred income taxes are as follows:

	As at December 31, 2011	As at December 31, 2010
Property, plant and equipment	$ (28,828)	$ (11,926)
Intangible assets	(556)	(2,823)
Allowance for doubtful accounts	168	465
Prepaids and accruals	(846)	-
Goodwill	-	(175)
Deferred revenue	-	572
Share issue costs	584	820
Lease obligations	1,581	2,332
Loss carry-forwards	17,268	5,475
Other	(164)	273
Deferred tax liability (net)	10,793	4,987

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company recognized deferred income tax assets of $17.3 million (2010 - $5.5 million) in respect of losses amounting to $42.2 million (2010 - $14.3 million) that can be carried forward against future taxable income and is due to expire between 2029 and 2030.

The Company has temporary differences in respect of its investments in Canadian and foreign subsidiaries for which no deferred taxes have been recorded. As no taxes are expected to be paid in respect of the temporary differences related to its Canadian subsidiaries and foreign subsidiaries, the Company has not determined the amount of those temporary differences.

18 Discontinued operations and disposal groups held for sale

Discontinued operations

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

On December 12, 2011, the Company sold its 100% shareholding in Strad Controls Ltd. (“Controls”) for proceeds of $8 million consisting of $6 million cash and $2 million in notes receivable (see note 7). The results and cash flows of the subsidiary are disclosed as a discontinued operation in accordance with IFRS.

(in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010
Analysis of the results of discontinued operations:		
Revenue	$ 26,543	$ 28,682
Expense	25,383	28,550
Income from ordinary activities of discontinued operations	1,160	132
Tax expense	184	(364)
Income after tax of ordinary activities of discontinued operations	976	496
Impairment of goodwill	(8,196)	-
Impairment of intangible assets	(1,771)	-
Pre-tax (loss) recognized on sale of investment in subsidiary	(945)	-
Tax recovery	452	-
After-tax (loss) income	(9,484)	496

	December 31, 2011	December 31, 2010
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	$ (61)	$ (274)
Investing cash flows	167	(293)
Financing cash flows	(364)	(47)
Total cash outflow	(258)	614

Disposal group held for sale

On December 1, 2011, the Company announced its strategic decision to dispose of the Production Services Division. On January 12, 2012, the Company sold its 100% shareholding in Strad Production Services Ltd and Sunwell Industries Ltd. ("Production"). With the sale of Production, the Company completed the sale of the Division. The results and cash flows of the subsidiary are disclosed as a discontinued operation in accordance with IFRS.

	December 31, 2011	December 31, 2010
Analysis of the results of discontinued operations:		
Revenue	$ 39,404	$ 35,466
Expense	39,694	34,748
(Loss) income from ordinary activities of discontinued operations	(290)	718
Tax expense (recovery)	190	(98)
(Loss) income after tax of ordinary activities of discontinued operations	(480)	816
Impairment of goodwill	(10,531)	-
Impairment of intangible assets	(4,247)	-
Pre-tax (loss) recognized on re-measurement of assets of disposal group to fair value less costs to sell	(6,190)	-
Tax recovery	1,080	-
After-tax (loss) income	(20,368)	816

(in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	$ 36	$ 932
Investing cash flows	(350)	(1,809)
Financing cash flows	25	(221)
Total cash outflow	(289)	(1,098)

The Company has reclassified the assets and liabilities of the disposal group as held for sale in accordance with IFRS.

	December 31, 2011
Assets of disposal group classified as held for sale	$ 14,056
Trade receivables	8,301
Inventory	5,552
Prepaids and other	203
Liabilities of disposal group classified as held for sale	$ 6,988
Bank indebtedness	205
Accounts payable and other	4,971
Income taxes payable	394
Deferred revenue	282
Current and long-term finance lease obligations	1,136

Consolidated statement of income from discontinued operations

	December 31, 2011	December 31, 2010
Income from ordinary activities of discontinued operations	$ 870	$ 850
Tax (recovery)	374	(462)
Income after taxation of ordinary activities of discontinued operations	496	1,312
Impairment of goodwill	(18,727)	-
Impairment of intangible assets	(6,018)	-
Pre-tax (loss) recognized on re-measurement of assets of disposal group to fair value less costs to sell	(6,190)	-
Pre-tax (loss) recognized on sale of investment in subsidiary	(945)	-
Tax recovery	1,532	-
After-tax (loss) income from discontinued operations [(1)]	(29,852)	1,312

(1) All of the (loss) income from discontinued operations is attributable to owners of the parent.

(in thousands of Canadian dollars)

	December 31, 2011	December 31, 2010
Current income tax expense from discontinued operations	$ 541	$ 31
Deferred income tax (recovery) from discontinued operations	(1,699)	(493)
Income tax (recovery) expense from discontinued operations	(1,158)	(462)

19 Commitments

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

	December 31, 2011	December 31, 2010
2011	$ -	$ 2,877
2012	4,023	2,422
2013	3,082	1,412
2014	2,292	921
2015	2,251	1,093
2016 and thereafter	5,160	-
	16,808	8,725

Included in commitments are operating leases totaling $3.7 million related to a subsidiary that was sold subsequent to year-end (see notes 18 and 26).

20 Changes in non-cash working capital

	December 31, 2011	December 31, 2010
Trade receivables	$ (7,766)	$ (23,974)
Inventory	7,221	2,764
Prepaid expenses	(1,376)	(1,906)
Income taxes receivable	241	(46)
Accounts payable and accrued liabilities	4,057	13,674
Deferred revenue	(1,142)	3,268
Income taxes payable	3,356	36
Net working capital change of disposal group held for sale	(9,673)	-
Net working capital change on sale of subsidiary	(8,009)	-
	(13,091)	(6,184)

21 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.

(in thousands of Canadian dollars)

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 flexible drill-site infrastructure solutions to exploration and production companies in the oil and 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 either Canadian or U.S. Operations.

The Executive Management team assesses the performance of the operating segments based on EBITDA results. Interest expense is allocated to the operating segments based on the portion of lending required to fund capital expenditures during the year.

During 2010, the Company's operating segments consisted of Drilling Services, Production Services and Corporate. On December 1, 2011, the Executive Management team made the strategic decision to sell the Company's Production Services Division in order to focus on organic growth in its core business. As a result, the Executive Management team further detailed the Company's Drilling Services Division into the operating segments discussed previously. As a result, 2010 comparatives have been restated.

For the year ended December 31, 2011	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 58,021	$ 63,860	$ 66,391	$ -	$ 188,272
Depreciation and amortization	10,699	7,872	268	359	19,198
Net interest expense	1,298	576	8	(86)	1,796
Earnings before income tax and non-controlling interests	11,399	15,772	8,653	(4,062)	31,762
Income tax expense (recovery)	2,813	6,005	1,204	540	10,562
Capital expenditures [(1)]	28,568	45,106	293	745	74,712
Goodwill	7,675	9,602	-	-	17,277
Total assets	99,216	101,319	6,495	6,025	213,055

For the year ended December 31, 2011	Continuing Operations	Discontinued Operations	Total
Capital expenditures [(1)]	$ 74,712	$ (129)	$ 74,583
Goodwill	17,277	-	17,277
Total assets	213,055	14,056	227,111

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

(in thousands of Canadian dollars)

For the year ended December 31, 2010	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	$ 37,414	$ 30,002	$ 22,068	$ -	$ 89,484
Depreciation and amortization	7,991	2,143	194	249	10,577
Net interest expense	603	-	15	1,630	2,248
Earnings before income tax and non-controlling interests	5,780	6,631	2,162	(4,235)	10,338
Income tax expense (recovery)	1,322	2,596	(176)	(116)	3,626
Capital expenditures [(1)]	13,706	24,485	113	309	38,613
Goodwill	7,675	9,602	-	-	17,277
Total assets	70,629	49,238	5,506	5,140	130,513

For the year ended December 31, 2010	**Continuing Operations**	**Discontinued Operations**	**Total**
Capital expenditures [(1)]	$ 38,613	$ 1,620	$ 40,233
Goodwill	17,277	18,727	36,004
Total assets	130,513	60,955	191,468

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

Revenue from continuing operations by geography	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Canada	$ 110,063	$ 58,067
U.S.	78,209	31,417
Total	188,272	89,484

	Year ended December 31, 2011			**Year ended December 31, 2010**		
	Capital assets & goodwill	Other assets	Total assets	Capital assets & goodwill	Other assets	Total assets
Canada	$ 68,302	$ 43,434	$ 111,736	$ 43,889	$ 37,386	$ 81,275
U.S.	78,164	23,155	101,319	36,845	12,393	49,238
Total	146,466	66,589	213,055	80,734	49,779	130,513

During 2011, the Canadian Operations segment had intercompany sales of $7.8 million (2010 - $14.5 million), not included in the revenue figures above, to the U.S. Operations segment. Intercompany sales consist of in-house manufactured capital assets which are sold to the U.S. Operations segment. These transactions are eliminated upon consolidation.

(in thousands of Canadian dollars)

22 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.

	December 31, 2011	December 31, 2010	January 1, 2010
Operating line of credit	$ 5,570	$ -	$ 13,249
Long-term debt	23,500	-	14,801
Finance leases	7,665	9,944	9,722
Total debt	36,735	9,944	37,772
Total equity	133,273	140,884	75,244
Less: cash and cash equivalents	-	(8,416)	-
Total capitalization	170,008	142,412	113,016

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 December 31, 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/(loss) plus interest, taxes, depreciation and amortization, loss on foreign exchange, other losses, 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.

On December 20, 2011, the Company obtained approval to make a normal course issuer bid (the "Bid") to purchase, from time to time, as it considers advisable, up to 1,862,319 of its issued and outstanding common shares on the open market. Common shares acquired by the Company under the Bid will be cancelled. As at December 31, 2011, the Company had not purchased, or engaged an agent to begin to purchase, any of its issued and outstanding common shares under the Bid.

(in thousands of Canadian dollars)

23 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade receivables, notes receivable, bank indebtedness, accounts payable and accrued liabilities, long-term debt and obligations under finance lease. The fair value of trade receivables, notes receivable, bank indebtedness, and accounts payable and accrued liabilities 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 no significant changes in the Company's own credit risk.

	December 31, 2011		**December 31, 2010**		**January 1, 2010**	
	Fair value amount	Carrying amount	Fair value amount	Carrying amount	Fair value amount	Carrying amount
Loans and receivables:						
Cash and cash equivalent	$ -	$ -	$ 8,416	$ 8,416	$ -	$ -
Trade receivables	49,466	49,466	41,700	41,700	18,547	18,547
Notes receivable	2,035	2,035	-	-	-	-
Financial liabilities:						
Bank indebtedness	5,570	5,570	-	-	13,249	13,249
Accounts payable and accrued liabilities	30,812	30,812	26,755	26,755	13,081	13,081
Long-term debt	23,500	23,500	-	-	14,801	14,801
Obligations under finance lease	7,665	7,665	9,944	9,944	9,722	9,722

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 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.

	December 31, 2011	**December 31, 2010**
Under 30 days	$ 32,235	$ 20,005
31-60 days	12,520	10,670
61-90 days	3,000	5,325
Over 90 days	1,711	5,700
Trade receivables	49,466	41,700

(in thousands of Canadian dollars)

As at December 31, 2011, the Company had an allowance for doubtful accounts of $0.5 million (2010 - $1.7 million) with respect to potentially uncollectible accounts. The Company does not have a significant exposure to any individual customer or counter party except one customer that accounted for approximately 11% of revenue from continuing operations for the year ended December 31, 2011 (2010 – one customer for 20%). No other customer accounted for more than 10% of revenue from continuing operations during the year ended December 31, 2011.

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 $0.5 million of trade receivables above for which a reserve balance has been taken, are past due or 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.

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

	2012	**2013**	**2014**	**2015**	**2016**
	Less than 1 year	1 – 2 years	2 - 3 years	3 – 4 years	4 – 5 years
Accounts payable and accrued liabilities	$ 30,812	$ -	$ -	$ -	$ -
Bank indebtedness [(1)]	5,894	-	-	-	-
Long-term debt [(1)]	1,021	1,021	24,078	-	-
Obligations under finance lease [(1)]	4,742	2,237	1,137	209	-
Total	42,469	3,258	25,215	209	-

(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.

(in thousands of Canadian dollars)

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 year ending December 31, 2011, if the exchange rate had weakened by 1% against the Canadian dollar with all other variables constant, after tax net earnings would've decreased by $148 thousand (2010 - $59 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 year ended December 31, 2011, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately $149 thousand higher (2010 - $154 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 year ended December 31, 2011.

24 Related party transactions

Compensation of key management

Key management includes the Company's directors and members of the Executive Committee. The compensation paid or payable to key management for services is shown below:

	Year-ended December 31, 2011	Year-ended December 31, 2010
Salaries and short-term employee benefits	$ 3,149	$ 2,293
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	778	147
	3,927	2,440

(in thousands of Canadian dollars)

Loans to key management

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

	Year-ended December 31, 2011	Year-ended December 31, 2010
Opening balance	$ 1,275	$ 651
Share purchase loans issued in 2010	-	624
Repayment of share purchase loans in 2011	(118)	-
	1,157	1,275

Certain key management personnel have loans outstanding totaling $1.2 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.

The opening balance of share purchase loans for the year-ended December 31, 2010, pertain to share purchase loans issued during the year-ended December 31, 2009.

25 Comparative figures

Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2011. Discontinued operations, with the exception of 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', have been reclassified to conform to the presentation required in 2011 under IFRS 5, Non-current assets held for sale and discontinued operations. Operating segments from the previous period have been reclassified to conform to the presentation adopted in 2011.

26 Events after the reporting period

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. ("Production") to a related party, being a former executive of the Company (see note 18). The Company received proceeds of $8.4 million consisting of $7.4 million cash and a $1 million note receivable.