Strad Energy Services Ltd.

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

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

(in thousands of Canadian dollars)

	June 30, 2011 $	December 31, 2010 $
Assets		
Current assets		
Cash and cash equivalents	-	8,416
Accounts receivable	45,387	41,700
Current portion of note receivable (note 5)	2,814	-
Inventories	15,995	15,171
Prepaid expenses and deposits	2,959	2,887
Income taxes receivable	481	241
	67,636	68,415
Non-current assets		
Property, plant and equipment (note 6)	112,352	70,128
Intangible assets (note 7)	10,025	11,446
Goodwill	36,004	36,004
Note receivable (note 5)	135	-
Deferred income taxes	4,906	5,475
Total assets	231,058	191,468
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	10,070	-
Accounts payable and accrued liabilities	27,701	26,755
Deferred revenue	4,086	3,387
Current portion of obligations under finance lease (note 9)	4,106	4,662
Income taxes payable	56	36
	46,019	34,840
Non-current liabilities		
Long-term debt (note 10)	22,000	-
Obligations under finance lease (note 9)	4,395	5,282
Deferred income tax liabilities	13,038	10,462
Total liabilities	85,452	50,584
Equity		
Equity attributable to owners of the parent		
Share capital (note 11)	156,924	157,071
Contributed surplus	2,676	2,221
Accumulated other comprehensive loss	(1,881)	(924)
Deficit	(13,091)	(18,235)
	144,628	140,133
Non-controlling interests	978	751
Total equity	145,606	140,884
Total liabilities and equity	231,058	191,468

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

Strad Energy Services Ltd.
Consolidated Statement of Income
For the three and six months ended June 30, 2011 and 2010
(Unaudited)

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

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Revenue	52,753	33,610	97,361	67,068
Expenses				
Operating expenses	32,044	21,707	60,830	42,967
Depreciation	4,702	2,634	8,537	5,059
Amortization of intangible assets	904	912	1,750	1,833
General administration	9,148	6,396	16,311	11,945
Share-based payments	241	151	455	305
Other gain (net)	(145)	(27)	(157)	(61)
Foreign exchange loss	325	185	595	314
Net interest expense	510	560	744	1,021
Income before income tax	5,024	1,092	8,296	3,685
Income tax (note 12)	1,677	260	2,819	1,081
Net income for the period	3,347	832	5,477	2,604
Net income attributable to:				
Owners of the parent	3,557	852	5,144	2,410
Non-controlling interests	(210)	(20)	333	194
	3,347	832	5,477	2,604
Earnings per share:	$0.10	$0.04	$0.14	$0.12
Basic	$0.10	$0.04	$0.14	$0.12
Diluted				

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

Strad Energy Services Ltd.
Consolidated Statement of Comprehensive Income
For the three and six months ended June 30, 2011 and 2010
(Unaudited)

(in thousands of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Net income for the period	3,347	832	5,477	2,604
Other comprehensive loss				
Cumulative translation adjustment	(267)	-	(1,063)	-
Total other comprehensive loss	(267)	-	(1,063)	-
Comprehensive income for the period	3,080	832	4,414	2,604
Comprehensive income attributable to:				
Owners of the parent	3,317	852	4,187	2,410
Non-controlling interests	(237)	(20)	227	194
	3,080	832	4,414	2,604

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

Strad Energy Services Ltd.

Consolidated Statement of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Attributable to equity owners of the Company						
	Share capital $	**Contributed surplus** $	**Accumulated other comprehensive loss** $	**Deficit** $	**Total** $	**Non-controlling Interest** $	**Total equity** $
Balance – January 1, 2011	157,071	2,221	(924)	(18,235)	140,133	751	140,884
Net income for the period	-	-	-	5,144	5,144	333	5,477
Other comprehensive loss (net of tax)):							
Cumulative translation adjustment	-	-	(957)	-	(957)	(106)	(1,063)
Comprehensive income (loss) for the period	-	-	(957)	5,144	4,187	227	4,414
Share issuance costs	(147)	-	-	-	(147)	-	(147)
Employee share options:							
Value of services recognized	-	455	-	-	455	-	455
Balance – June 30, 2011	156,924	2,676	(1,881)	(13,091)	144,628	978	145,606
Balance – January 1, 2010	99,091	1,661	-	(25,544)	75,208	36	75,244
Net income for the period	-	-	-	2,410	2,410	194	2,604
Comprehensive income (loss) for the period	-	-	-	2,410	2,410	194	2,604
Employee share options:							
Value of services recognized	-	305	-	-	305	-	305
Share repurchase	(10)	-	-	-	(10)	-	(10)
Balance – June 30, 2010	99,081	1,966	-	(23,134)	77,913	230	78,143

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

Strad Energy Services Ltd.

Consolidated Statement of Cash Flow

For the six months ended June 30, 2011 and 2010

(Unaudited)

(in thousands of Canadian dollars)

	2011 $	2010 $
Cash flow provided by (used in)		
Operating Activities		
Net income for the period	5,477	2,604
Adjustments for:		
Depreciation and amortization	10,287	6,892
Deferred income tax	3,216	(591)
Share-based payments	455	305
Net interest expense	744	1,021
Other	(157)	(61)
Changes in items of non-cash working capital:		
Accounts receivable	(3,687)	(12,006)
Inventories	(824)	3,428
Prepaid expenses	(72)	(1,295)
Accounts payable and accrued liabilities	946	6,645
Note receivable	(2,949)	-
Other current liabilities	479	2,102
Net cash generated from operating activities	13,915	9,044
Investing activities		
Purchase of property, plant and equipment	(50,471)	(18,075)
Proceeds from sale of property, plant and equipment	452	462
Purchase of intangible assets	(338)	(154)
Net cash generated from investing activities	(50,357)	(17,767)
Financing activities		
Change in bank indebtedness	10,070	4,552
Proceeds on issuance of debt	22,000	-
Repayment of debt	-	(10,960)
Repayment of finance lease obligations (net)	(3,084)	(4)
Proceeds on issuance of convertible debentures	-	16,166
Interest paid on debt	(744)	(1,021)
Repurchase of share capital	-	(10)
Share issuance costs	(147)	-
Net cash generated in financing activities	28,095	8,723
Effect of exchange rate changes on cash and cash equivalents	(69)	-
Increase (decrease) in cash and cash equivalents	(8,416)	-
Cash and cash equivalents – Beginning of period	8,416	-
Cash and cash equivalents – End of period	-	-

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

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

1 General information

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

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

The head office, principal address and records office of the Company are located at 441 5th Ave SW, Suite 600, Calgary, Alberta, Canada, T2P 2V1.

These condensed interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on August 12, 2011.

2 Basis of preparation

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

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

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 12, 2011, the date the Board approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

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

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

New accounting pronouncements:

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

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

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

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

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

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

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

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

3 Transition to IFRS

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

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

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

Deficit		**June 30, 2010** $
Deficit as reported under Canadian GAAP		(22,523)
IFRS adjustments increase (decrease)	**4(ii)**	
Share based payments	(a)	(680)
Deferred tax	(b)	69
Deficit as reported under IFRS		(23,134)

Equity		**June 30, 2010** $
Equity as reported under Canadian GAAP [(1)]		78,074
IFRS adjustments increase (decrease)	**4(ii)**	
Deferred tax	(b)	69
Equity as reported under IFRS		78,143

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

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

Comprehensive income		Three months ended June 30, 2010 $	Six months ended June 30, 2010 $
As reported under Canadian GAAP		893	2,523
Increase (decrease) in net income for:	**4(ii)**		
Deferred tax	(b)	49	69
Share-based payments	(a)	(90)	(182)
As reported under IFRS		852	2,410

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

(ii) IFRS adjustments

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

IFRS does not provide for alternate accounting policies for private companies and requires the use of a volatility rate based on actual company trading history or the average of the volatility rates of its closest related peer group as well as the application of an estimated forfeiture rate. Accordingly, upon transition to IFRS, the Company recorded an adjustment of $498 thousand to increase contributed surplus to recognize the increase in share-based payments expense with the offset charged to deficit. The Company elected to use the IFRS 1 exemption whereby the share-based payment expense for options that had vested prior to January 1, 2010 were not required to be retrospectively restated. The application of IFRS for share-based payments resulted in a $90 thousand and $182 thousand decrease to the Company's previous Canadian GAAP net income for the three and six months ended June 30, 2010. Therefore, the total impact to deficit at June 30, 2010 was an increase of $680 thousand.

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

(b) Deferred tax has been adjusted to reflect the tax differences arising from the differences between IFRS and previous Canadian GAAP for temporary differences arising on intercompany sales of assets. The adjustment arises from differing tax rates between Canada and the United States. During the three and six months ended June 30, 2010, the application of the IFRS adjustments to the tax provision resulted in a $49 thousand and $69 thousand decrease to the Company's deferred income tax expense and a corresponding increase to the Company's previous Canadian GAAP net earnings.

(iii) Adjustments to the statement of financial position

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

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

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

(iv) Adjustments to the statement of cash flows

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

4 Business combination

On May 1, 2011 the Company acquired substantially all of the capital assets of a private oil and gas service company, which complements the Company's existing rental fleet. The Company paid total consideration of $4.25 million cash and recorded $53 thousand of transaction costs in SG&A. Total revenue related to the acquired assets since acquisition of $255 thousand 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

The above allocation is preliminary and is subject to change.

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

5 Note receivable

On June 21, 2011, the Company received a $2.9 million note receivable from one of its customers as settlement of an outstanding accounts receivable balance. The repayment terms of the note call for a payment of $0.2 million on June 29, 2011 with a second payment of $2.5 million due at the earliest of the customer receiving settlement proceeds from a third party or December 28, 2011. The first payment of $0.2 million was received July 1, 2011. The remaining balance of $0.2 million is due in equal monthly installments commencing January 31, 2012 with the last payment due December 31, 2012. The note bears interest at 5.0% compounding annually.

6 Property, plant & equipment

Cost

	Buildings	Automotive Equipment	Furniture & Fixtures	Computers	Tools & Equipment
	$	$	$	$	$
As at December 31, 2010	353	2,995	1,070	1,201	6,390
Capital expenditures	-	210	67	242	1,680
Divestitures	-	(285)	(2)	1	(2)
Transfers	-	28	-	(1)	11
Foreign currency translation	-	-	(3)	(21)	(19)
As at June 30, 2011	353	2,948	1,132	1,422	8,060

Cost (cont'd)

	Leasehold Improvements	Rental Equipment	*Assets Under Finance Lease* Rental	*Assets Under Finance Lease* Other	Total
	$	$	$	$	$
As at December 31, 2010	1,773	65,604	13,353	8,273	101,012
Capital expenditures	132	48,140	-	-	50,471
Divestitures	-	-	(243)	(810)	(1,341)
Transfers	-	2,446	(3,048)	(163)	(727)
Assets under financial lease	-	-	15	1,624	1,639
Foreign currency translation	-	(1,128)	-	(30)	(1,201)
As at June 30, 2011	1,905	115,062	10,077	8,894	149,853

Accumulated Depreciation and Amortization

	Buildings	Automotive Equipment	Furniture & Fixtures	Computers	Tools & Equipment
	$	$	$	$	$
As at December 31, 2010	165	2,046	799	946	4,576
Depreciation and amortization	43	216	74	101	473
Divestitures	-	(255)	(2)	1	(2)
Transfers	-	22	-	(1)	2
Foreign currency translation	-	-	-	(2)	(1)
As at June 30, 2011	208	2,029	871	1,045	5,048
Net book value					
As at December 31, 2010	188	949	271	255	1,814
As at June 30, 2011	145	919	261	377	3,012

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

Accumulated Depreciation and Amortization (cont'd)

	Leasehold Improvements	Rental Equipment	*Assets Under Finance Lease* Rental	Other	Total
	$	$	$	$	$
As at December 31, 2010	905	12,897	4,739	3,811	30,884
Depreciation and amortization	143	5,928	698	861	8,537
Divestitures	-	-	(237)	(551)	(1,046)
Transfers	-	319	(1,026)	(52)	(736)
Foreign currency translation	-	(131)	-	(4)	(138)
As at June 30, 2011	1,048	19,013	4,174	4,065	37,501
Net book value					
As at December 31, 2010	868	52,707	8,614	4,462	70,128
As at June 30, 2011	857	96,049	5,903	4,829	112,352

7 Intangible assets

Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
	$	$	$	$	$
As at December 31, 2010	20,558	2,995	1,942	1,057	26,552
Capital expenditures	-	-	50	288	338
Transfers	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
As at June 30, 2011	20,558	2,995	1,992	1,345	26,890

Accumulated Depreciation and Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
	$	$	$	$	$
As at December 31, 2010	11,335	1,371	1,684	716	15,106
Depreciation and amortization	1,295	150	191	114	1,750
Transfers	-	-	-	9	9
As at June 30, 2011	12,630	1,521	1,875	839	16,865
Net book value					
As at December 31, 2010	9,223	1,624	258	341	11,446
As at June 30, 2011	7,928	1,474	117	506	10,025

8 Bank indebtedness

The Company's bank indebtedness consists of a revolving demand facility with a maximum principal amount of $25.0 million subject to certain limitations on accounts receivable and inventory and is secured by a general security agreement over the Company's assets. The operating facility bears interest at bank prime plus 1.75% on prime rate advances and at the prevailing rate plus a stamping fee of 3.00% on bankers' acceptances. At June 30, 2011, the overall effective rate on the operating loan was 4.27%.

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

9 Obligations under finance lease

	As at June 30, 2011 $	As at December 31, 2010 $
Equipment under finance lease	8,501	9,944
Current portion	(4,106)	(4,662)
	4,395	5,282

As part of the Company's obligations under finance lease as described above, the Company has a bank lease facility of $10.0 million of which $4.9 million is outstanding at June 30, 2011. Monthly payments are fixed amounts representing principal and interest. The bank leases bear interest at fixed market rates and at June 30, 2011, the overall effective rate on the lease line was 5.53%.

10 Long-term debt

Long-term debt	As at June 30, 2011 $	As at December 31, 2010 $
Committed 364-day revolving loan	22,000	-
Current portion	-	-
	22,000	-

The Company has a $24.0 million 364-day revolving bank facility of which the Company had drawn $22.0 million as at June 30, 2011. The loan can be demanded on June 30, 2012 at which time one third of the balance would be repaid over the ensuing 12 month period with the remaining two thirds of the balance due immediately thereafter. The revolving bank facility is subject to certain borrowing restrictions based on the net book value of the Company's fixed assets. Monthly payments are interest only and the facility is secured by a general security agreement over the Company's assets. The revolving bank facility bears interest at bank prime plus 2.25% on prime rate advances and at the prevailing rate plus a stamping fee of 3.75% on bankers' acceptances. At June 30, 2011, the overall effective rate on the revolving bank facility was 5.23%.

11 Share capital

a) Authorized

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

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

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

b) Issued and outstanding

	For the period ended June 30, 2011		Year ended December 31, 2010	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	37,246,384	157,071	20,149,380	99,091
Issued on private placements	-	-	258,000	645
Issued on IPO	-	-	11,250,000	45,000
Issued on conversion of debentures	-	-	5,593,603	16,781
Repurchases	-	-	(4,599)	(19)
Shareholder loans	-	-	-	(1,460)
Share issue costs	-	(147)	-	(3,988)
Future income taxes	-	-	-	1,021
Total common shares, end of period	37,246,384	156,924	37,246,384	157,071

c) Share-based compensation

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

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

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

	June 30, 2011		December 31, 2010	
	Outstanding options	Weighted average exercise price per share $	Outstanding options	Weighted average exercise price per share $
Balance, beginning of period	1,826,667	4.05	1,219,500	4.96
Granted	602,000	4.09	670,500	2.50
Forfeited – vested	(20,333)	5.72	(38,666)	5.88
Forfeited – unvested	(27,334)	3.01	(24,667)	5.43
Balance, end of period	2,381,000	4.06	1,826,667	4.05

The Company recognized compensation expense of $241 thousand and $455 thousand (2010 - $151 thousand and $305 thousand) during the three and six months ended June 30, 2011 based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate between 2% and 4%, expected volatility between 40.4% and 56.0% and zero expected dividends.

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

d) Basic and diluted shares

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic weighted average shares outstanding	36,632,544	20,148,127	36,632,544	20,148,750
Dilutive effect of stock options	348,857	-	388,193	-
Diluted weighted average shares outstanding	36,981,401	20,148,127	37,020,737	20,148,750

12 Income taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Current tax expense (recovery)	(417)	653	(397)	1,672
Deferred tax expense (recovery)	2,094	(393)	3,216	(591)
Income tax expense	1,677	260	2,819	1,081

13 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.

	June 30, 2011 $	December 31, 2010 $
Operating line of credit	10,070	-
Long-term debt	22,000	-
Finance leases	8,501	9,944
Total debt	40,571	9,944
Total equity	145,606	140,884
Less: cash and cash equivalents	-	(8,416)
Total capitalization	186,177	142,412

The Company manages capital and makes adjustments taking into consideration changing market conditions and other opportunities, while remaining cognizant of the cyclical nature of the energy services sector. In order to maintain or adjust 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 June 30, 2011, the Company is in compliance with respect to these covenants. The Company also monitors non-GAAP measures, specifically EBITDA, which is calculated as net income plus interest, taxes, depreciation and amortization,

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

non-controlling interest, loss on foreign exchange, other losses, less gain on foreign exchange, and other gains. The Company's management uses EBITDA to evaluate the financial performance of each division.

14 Financial instruments

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

	June 30, 2011		December 31, 2010	
	Fair value amount $	Carrying amount $	Fair value amount $	Carrying amount $
Loans and receivables:				
Cash and cash equivalents	-	-	8,416	8,416
Accounts receivable	45,387	45,387	41,700	41,700
Note receivable	2,949	2,949	-	-
Financial liabilities:				
Bank indebtedness	10,070	10,070	-	-
Accounts payable and accrued liabilities	27,701	27,701	26,755	26,755
Long-term debt	22,000	22,000	-	-

Credit Risk

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

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

	June 30, 2011 $	December 31, 2010 $
Under 30 days	31,199	20,005
31-60 days	5,733	10,670
61-90 days	5,841	5,325
Over 90 days	2,614	5,700
Trade receivable	45,387	41,700

As at June 30, 2011, the Company had a reserve balance of $1.0 million (2010 - $0.9 million) with respect to potentially uncollectible trade accounts and note receivable. 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 for the six months ended June 30, 2011 (2010 –

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

one customer for 13%). No other customer accounted for more than 10% of revenue during the six months ended June 30, 2011.

Liquidity Risk

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

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

	2012	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	27,701	-	-	-	-
Bank indebtedness [(1)]	10,555	-	-	-	-
Long-term debt [(1)]	-	7,717	15,434	-	-
Obligations under finance lease [(1)]	4,264	3,295	1,637	22	-
Total	42,520	11,012	17,071	22	-

(1) Includes principal and interest

Market Risk

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

i) Foreign exchange risk

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

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its borrowings which are at floating rates. For the period ending June 30, 2011, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the

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

period would have been approximately $92 thousand higher (2010 - $133 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 June 30, 2011.

15 Segment reporting

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

For the three months ended June 30, 2011	Drilling	Production	Corporate	Total
	$	$	$	$
Revenue	36,717	16,036	-	52,753
Depreciation and amortization	4,526	996	84	5,606
Net interest expense	718	24	(232)	510
Earnings before income tax and non-controlling interests	6,461	(208)	(1,229)	5,024
Income tax expense (recovery)	1,668	(155)	164	1,677
Capital expenditures [(1)]	19,176	41	136	19,353

For the three months ended June 30, 2010	Drilling	Production	Corporate	Total
	$	$	$	$
Revenue	18,633	14,977	-	33,610
Depreciation and amortization	2,466	1,019	61	3,546
Net interest expense	165	21	374	560
Earnings before income tax and non-controlling interests	2,557	517	(1,982)	1,092
Income tax expense (recovery)	767	52	(559)	260
Capital expenditures [(1)]	11,845	73	(59)	11,859

For the six months ended June 30, 2011	Drilling	Production	Corporate	Total
	$	$	$	$
Revenue	63,499	33,862	-	97,361
Depreciation and amortization	8,110	2,017	160	10,287
Net interest expense	1,035	56	(347)	744
Earnings before income tax and non-controlling interests	11,214	59	(2,977)	8,296
Income tax expense (recovery)	2,617	(245)	447	2,819
Capital expenditures [(1)]	50,400	(94)	165	50,471
Goodwill	17,277	18,727	-	36,004
Total assets	172,455	56,595	2,008	231,058

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

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

For the six months ended June 30, 2010	Drilling $	Production $	Corporate $	Total $
Revenue	36,037	31,031	-	67,068
Depreciation and amortization	4,727	2,048	117	6,892
Net interest expense	327	40	654	1,021
Earnings before income tax and non-controlling interests	6,209	1,102	(3,626)	3,685
Income tax expense (recovery)	1,851	225	(995)	1,081
Capital expenditures [(1)]	17,842	205	28	18,075
Goodwill	17,277	18,727	-	36,004
Total assets	91,380	60,000	2,155	153,535

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

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

Revenue by geography	Three months ended June 30,		Six months ended June 30,	
	2011 $	2010 $	2011 $	2010 $
Canada	37,097	26,963	72,750	56,997
USA	15,656	6,647	24,611	10,071
Total	52,753	33,610	97,361	67,068

Assets by geography	As at June 30, 2011 $	As at December 31, 2010 $
Canada	147,968	151,832
USA	83,090	39,636
Total assets	231,058	191,468

16 Subsequent event

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. The syndicated facility bears interest at a variable rate, which is dependent on the Company’s funded debt to EBITDA ratio.