Strad Energy Services Ltd.

Unaudited Condensed Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2014 and 2013

Strad Energy Services Ltd.

Interim Consolidated Statement of Financial Position

(Unaudited)

(in thousands of Canadian dollars)	**As at June 30, 2014** **$**	**As at December 31, 2013** **$**
Assets		
Current assets		
Trade receivables	37,626	35,569
Inventories (note 4)	6,343	5,788
Prepaids and deposits	2,501	1,772
Note receivable (note 5)	178	350
Income taxes receivable	65	40
	46,713	43,519
Assets held for sale (note 6)	2,372	3,167
Non-current assets		
Property, plant and equipment (note 7)	150,806	142,108
Intangible assets (note 8)	1,487	1,685
Goodwill	17,277	17,277
Deferred income tax assets	170	164
Total assets	218,825	207,920
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	988	1,879
Accounts payable and accrued liabilities	25,241	25,403
Deferred revenue	18	785
Current portion of obligations under finance lease (note 10)	1,051	1,887
Dividend payable	2,608	2,050
	29,906	32,004
Non-current liabilities		
Long-term debt (note 11)	44,400	38,500
Obligations under finance lease (note 10)	1,444	770
Deferred income tax liabilities	9,700	7,797
Total liabilities	85,450	79,071
Equity		
Share capital (note 12)	117,838	117,824
Contributed surplus (note 12)	11,765	11,612
Accumulated other comprehensive income	716	603
Retained earnings (deficit)	3,056	(1,190)
Total equity	133,375	128,849
Total liabilities and equity	218,825	207,920

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

Strad Energy Services Ltd.

Interim Consolidated Statement of Income and Comprehensive Income

For the three and six months ended June 30, 2014 and 2013

(Unaudited)

(in thousands of Canadian dollars, except per share amounts)	**Three months ended June 30,**		**Six months ended June 30,**	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Revenue	53,692	49,576	105,580	94,299
Expenses				
Operating expenses (note 21)	35,585	34,815	70,791	63,542
Depreciation	5,556	8,543	10,857	15,730
Amortization of intangible assets	183	281	369	720
Selling, general and administration (note 21)	5,685	5,897	11,241	11,046
Share-based payments	122	95	260	283
(Gain) loss on disposal of property, plant and equipment	(241)	76	(999)	662
Foreign exchange loss (gain)	236	(18)	169	(139)
Finance fees	99	71	187	143
Interest expense	599	791	1,134	1,505
Loss on assets held for sale	161	17	199	175
Income (loss) before income tax	5,707	(992)	11,372	632
Income tax expense (recovery) (note 13)	944	(1,005)	2,468	(444)
Net income for the period	4,763	13	8,904	1,076
Other comprehensive income				
Items that may be reclassified subsequently to net income				
Cumulative translation adjustment	(929)	1,160	113	1,768
Comprehensive income for the period	3,834	1,173	9,017	2,844
Earnings per share:				
Basic	$0.13	$0.00	$0.24	$0.03
Diluted	$0.13	$0.00	$0.24	$0.03

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

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

(in thousands of Canadian dollars)

	Attributable to equity owners of the Company				
	Share capital $	**Contributed surplus** $	**Accumulated other comprehensive income (loss)** $	**Retained earnings (deficit)** $	**Total equity** $
Balance - January 1, 2014	117,824	11,612	603	(1,190)	128,849
Net income for the period	—	—	—	8,904	8,904
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	113	—	113
Comprehensive income for the period	—	—	113	8,904	9,017
Exercise of options (note 12)	14	(107)	—	—	(93)
Dividends declared	—	—	—	(4,658)	(4,658)
Employee share options:					
Value of services recognized	—	260	—	—	260
Balance - June 30, 2014	117,838	11,765	716	3,056	133,375
Balance - January 1, 2013	117,462	11,016	(1,451)	1,632	128,659
Net income for the period	—	—	—	1,076	1,076
Other comprehensive loss (net of tax):					
Cumulative translation adjustment	—	—	1,768	—	1,768
Comprehensive income for the period	—	—	1,768	1,076	2,844
Exercise of options	—	(36)	—	—	(36)
Shareholder loan repayments	117	—	—	—	117
Dividend declared	—	—	—	(4,096)	(4,096)
Employee share options:					
Value of services recognized	—	283	—	—	283
Other	—	54	—	—	54
Balance - June 30, 2013	117,579	11,317	317	(1,388)	127,825

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

Strad Energy Services Ltd.
Interim Consolidated Statement of Cash Flow
For the six months ended June 30, 2014 and 2013
(Unaudited)

(in thousands of Canadian dollars)

Cash flow provided by (used in)	**2014** **$**	**2013** **$**
Operating activities		
Net income for the period	8,904	1,076
Adjustments for items not affecting cash:		
Depreciation and amortization	11,226	16,450
Deferred income tax expense (recovery) (note 13)	1,889	(753)
Share-based payments (net of cash settlements on share option exercises)	159	247
Interest expense and finance fees	1,321	1,648
(Gain) loss on disposal of property, plant and equipment	(999)	662
Loss on assets held for sale (note 6)	199	175
Changes in items of non-cash working capital (note 15)	(7,561)	(5,835)
Net cash generated from operating activities	15,138	13,670
Investing activities		
Purchase of property, plant and equipment	(20,942)	(988)
Proceeds from sale of property, plant and equipment	2,826	1,550
Purchase of intangible assets	(263)	(396)
Purchase of assets held for sale	—	(125)
Proceeds from assets held for sale	558	1,876
Changes in items of non-cash working capital (note 15)	3,014	(518)
Net cash generated from (used in) investing activities	(14,807)	1,399
Financing activities		
Proceeds on issuance of long-term debt	8,000	2,000
Repayment of long-term debt	(2,100)	(8,100)
Repayment of finance lease obligations (net)	(162)	(1,464)
Repayment of shareholder loan	—	115
Interest expense and finance fees	(1,321)	(1,648)
Payment of dividends	(4,100)	(4,096)
Changes in items of non-cash working capital (note 15)	424	—
Net cash generated from (used in) financing activities	741	(13,193)
Effect of exchange rate changes on cash and cash equivalents	(181)	(2,235)
Increase (decrease) in cash and cash equivalents	891	(359)
Cash and cash equivalents (including bank indebtedness) – beginning of year	(1,879)	(2,488)
Cash and cash equivalents (including bank indebtedness) – end of period	(988)	(2,847)
Cash paid for income tax	744	731
Cash paid for interest	1,113	1,512

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

(in thousands of Canadian dollars)

1 General information

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

The Company is a publicly listed company incorporated and domiciled in Canada under the legislation of the Province of Alberta. The condensed interim consolidated financial statements of the Company for the period ended June 30, 2014, and 2013, comprise the Company and its subsidiaries.

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

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on August 6, 2014.

2 Basis of preparation

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

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

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued, effective and outstanding as of August 6, 2014, the date the Board approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2014, could result in restatement of these condensed interim consolidated financial statements.

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

3 Changes in accounting policy and disclosures

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

(in thousands of Canadian dollars)

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

On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement.*" IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

In May 2014, the IASB published IFRS 15, "*Revenue From Contracts With Customers*" ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

A description of other standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2013.

4 Inventories

	As at June 30, 2014	As at December 31, 2013
Raw materials	$ 2,746	$ 3,103
Work in progress	26	256
Finished goods	3,571	2,429
	6,343	5,788

The cost of inventories recognized as expense and included in 'Operating expenses' for the six months ended June 30, 2014, amounted to $24.7 million (2013 - $24.9 million). During the six months ended June 30, 2014 and 2013 the Company had no write-downs of inventories to net realizable value.

(in thousands of Canadian dollars)

5 Note receivable

		As at June 30, 2014		As at December 31, 2013
Three-year note receivable	$	178	$	350
Current portion		178		350
Long-term portion		—		—

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

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

6 Assets held for sale

		Land and building		Equipment – Canadian Operations		Equipment – U.S. Operations		Total
As at December 31, 2013	$	2,127	$	435	$	605	$	3,167
Divestitures		—		(254)		(568)		(822)
Foreign currency translation		8		—		19		27
As at June 30, 2014		2,135		181		56		2,372

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

Land and building

The Company intends to sell land and building that were purchased in April 2012 for $1.4 million. Improvements of $1.2 million were made to the property since initial acquisition. For the six months ended June 30, 2014, no impairment loss was recognized on the land and building held for sale.

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

Rental Equipment

As at December 31, 2013, the Company classified rental equipment with a collective carrying value of $1.0 million as assets held for sale. For the six months ended June 30, 2014, no impairment loss was recognized on the rental equipment.

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

(in thousands of Canadian dollars)

7 Property, plant and equipment

Cost

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2013	$ 188,528	$ 15,830	$ 6,203	$ 2,978	$ 2,197	$ 215,736
Capital expenditures	18,144	2,563	197	24	14	20,942
Divestitures	(469)	(4,682)	(1,158)	(541)	(112)	(6,962)
Transfers	(1,880)	—	—	—	—	(1,880)
Other	150		—	—	—	150
Foreign currency translation	275	(1)	(6)	7	2	277
As at June 30, 2014	204,748	13,710	5,236	2,468	2,101	228,263

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2012	$ 188,628	$ 16,398	$ 5,910	$ 2,595	$ 2,020	$ 215,551
Capital expenditures	184	800	71	98	7	1,160
Divestitures	(4,937)	(1,819)	(494)	(8)	(8)	(7,266)
Transfers	(6,609)	(24)	—	—	—	(6,633)
Foreign currency translation	5,484	194	29	49	43	5,799
Other	117	71	46	—	3	237
As at June 30, 2013	182,867	15,620	5,562	2,734	2,065	208,848

Accumulated Depreciation

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2013	$ 57,914	$ 9,225	$ 3,180	$ 1,585	$ 1,724	$ 73,628
Depreciation	8,705	1,207	415	407	123	10,857
Divestitures	(310)	(3,381)	(822)	(519)	(107)	(5,139)
Transfers	(1,870)	—	—	—	—	(1,870)
Other	11	—	—	—	—	11
Foreign currency translation	(29)	(3)	—	2	—	(30)
As at June 30, 2014	64,421	7,048	2,773	1,475	1,740	77,457

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2012	$ 45,674	$ 7,524	$ 2,891	$ 1,033	$ 1,387	$ 58,509
Depreciation	13,379	1,491	460	250	150	15,730
Divestitures	(3,093)	(1,137)	(373)	(5)	(8)	(4,616)
Transfers	(6,629)	(25)	—	—	—	(6,654)
Foreign currency translation	1,469	115	(256)	20	13	1,361
Other	15	—	7	—	—	22
As at June 30, 2013	50,815	7,968	2,729	1,298	1,542	64,352

Net book value

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at June 30, 2013	$ 132,052	$ 7,652	$ 2,833	$ 1,436	$ 523	$ 144,496
As at December 31, 2013	130,614	6,605	3,023	1,393	473	142,108
As at June 30, 2014	140,327	6,662	2,463	993	361	150,806

[1] Other includes land, buildings and computer hardware

Included in Rental equipment and Automotive equipment are assets under financial lease with a net carrying amount of $319 thousand (2013 - $132 thousand) and $3.3 million (2013 - $4.2 million) respectively.

(in thousands of Canadian dollars)

8 Intangible assets

Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 7,200	$ 3,025	$ 900	$ 1,947	$ 13,072
Capital expenditures	—	222	—	41	263
Divestitures	—	—	—	(47)	(47)
Other	—	(98)	—	—	(98)
Foreign currency translation	—	5	—	3	8
As at June 30, 2014	7,200	3,154	900	1,944	13,198

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	$ 7,200	$ 2,652	$ 900	$ 1,733	$ 12,485
Capital expenditures	—	324	—	72	396
Transfers	—	(20)	—	—	(20)
Foreign currency translation	—	36	—	—	36
As at June 30, 2013	7,200	2,992	900	1,805	12,897

Accumulated Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 7,200	$ 2,029	$ 898	$ 1,260	$ 11,387
Amortization	—	164	2	203	369
Divestitures	—	—	—	(45)	(45)
As at June 30, 2014	7,200	2,193	900	1,418	11,711

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	$ 6,899	$ 1,242	$ 837	$ 786	$ 9,764
Amortization	281	182	33	224	720
Foreign currency translation	—	14	—	—	14
As at June 30, 2013	7,180	1,438	870	1,010	10,498

Net Book Value

As at June 30, 2013	$ 20	$ 1,554	$ 30	$ 795	$ 2,399
As at December 31, 2013	—	996	2	687	1,685
As at June 30, 2014	—	961	—	526	1,487

9 Bank indebtedness

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

(in thousands of Canadian dollars)

Based on the Company's current funded debt to EBITDA ratio, the interest rate on the syndicated credit facility is bank prime plus 1.25% on prime rate advances and at the prevailing rate plus a stamping fee of 2.25% on bankers' acceptances. The syndicated credit facility matures on July 25, 2016. For the six months ended June 30, 2014, the overall effective rate on the operating facility was 4.16% (2013 - 4.11%). At June 30, 2014, $1.0 million (2013 - $2.8 million) was drawn on the operating facility. All bank covenants are in compliance as at June 30, 2014.

10 Obligations under finance lease

		As at June 30, 2014		As at December 31, 2013
Equipment under finance lease	$	2,495	$	2,657
Current portion		1,051		1,887
Long-term portion		1,444		770

The finance leases bear interest ranging from 3% to 5% at June 30, 2014.

11 Long-term debt

		As at June 30, 2014		As at December 31, 2013
Revolving facility	$	44,400	$	38,500
Current portion		—		—
Long-term portion		44,400		38,500

As at June 30, 2014, the Company had access to the maximum available $85.0 million revolving facility (see note 9) of which $44.4 million was drawn. Required monthly payments are interest only with the principal due July 25, 2016. The overall effective rate on the revolving facility at June 30, 2014, was 3.45% (2013 – 3.44%).

12 Share capital

a) Authorized

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

As at June 30, 2014, there are no Class B, C, D, E or F shares outstanding.

(in thousands of Canadian dollars)

b) Issued and outstanding

	Six months ended June 30, 2014		Year-ended December 31, 2013	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	37,251,301	117,824	37,251,301	117,462
Shareholder loan – repayment	—	12	—	516
Shareholder loan – issuance	—	—	—	(130)
Interest on shareholder loans	—	(12)	—	(24)
Exercise of options	3,626	14	—	—
Total common shares, end of period	37,254,927	117,838	37,251,301	117,824

c) Share-based payments

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

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

	As at June 30, 2014		As at December 31, 2013	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,326,834	$3.80	2,145,334	$3.99
Granted	631,000	$3.68	660,000	$3.42
Exercised	(105,984)	$3.36	(78,499)	$2.50
Expired – vested	(145,000)	$4.00	(42,000)	$6.50
Forfeited – vested	(22,328)	$4.23	(252,825)	$4.21
Forfeited – unvested	(97,182)	$3.72	(105,176)	$1.08
Balance, end of period	2,587,340	$3.78	2,326,834	$3.80

The Company recognized compensation expense of $260 thousand during the six months ended June 30, 2014, (2013 - $283 thousand). During the six months ended June 30, 2014, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate - 1.62%, expected volatility - 41%, forfeiture rate of 15% and an expected quarterly dividend of 5.5 cents per share.

(in thousands of Canadian dollars)

d) Contributed surplus

	Six months ended June 30, 2014	Year-ended December 31, 2013
Balance, beginning of year	$ 11,612	$ 11,016
Share-based payments expense	260	590
Exercise of options	(107)	(48)
Other	—	54
Balance, end of period	11,765	11,612

e) Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Basic weighted average shares outstanding	36,732,124	36,532,859	36,732,739	36,532,859
Dilutive effect of stock options	426,039	75,783	300,514	82,394
Dilutive effect of shareholder loans	521,639	718,442	521,639	718,442
Diluted weighted average shares outstanding	37,679,802	37,327,084	37,554,892	37,333,695

f) Dividend payable

On both January 10, 2014 and April 11, 2014, the Company paid a dividend of 5.5 cents per share. On May 7, 2014, the Company's Board of Directors declared a dividend of 7.0 cents per share, payable on July 11, 2014, to shareholders of record at the close of business on June 30, 2014.

13 Income tax

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Current income tax expense (recovery)	$ (81)	$ 94	$ 579	$ 309
Deferred income tax expense (recovery)	1,025	(1,099)	1,889	(753)
Income tax expense (recovery)	944	(1,005)	2,468	(444)

(in thousands of Canadian dollars)

14 Commitments and contingencies

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

	June 30, 2014	December 31, 2013
2014	$ 2,439	$ 4,905
2015	3,825	3,791
2016	3,266	3,171
2017	2,402	2,333
2018	1,608	1,601
2019 and thereafter	3,620	4,349
	17,160	20,150

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

15 Changes in non-cash working capital

	June 30, 2014	June 30, 2013
Trade receivables	$ (2,057)	$ (3,576)
Inventories	(555)	3,084
Prepaids and deposits	(729)	471
Income taxes receivable	(25)	(418)
Note receivable	172	328
Accounts payable and accrued liabilities	(162)	(3,855)
Deferred revenue	(767)	212
Notes payable	—	(441)
Restructuring provision	—	(2,158)
Changes in items of non-cash working capital	(4,123)	(6,353)
Changes in items of non-cash working capital - Investing activities	3,014	(518)
Changes in items of non-cash working capital - Financing activities	424	—
Changes in items of non-cash working capital - Operating activities	(7,561)	(5,835)
Changes in items of non-cash working capital	(4,123)	(6,353)

(in thousands of Canadian dollars)

16 Segment information

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

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

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

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

Three months ended June 30, 2014	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	$ 19,644	$ 17,396	$ 16,652	$ —	$ 53,692
Depreciation and amortization	2,299	3,126	213	101	5,739
Net interest expense	21	64	10	504	599
Finance fees	—	—	—	99	99
Earnings before income tax	3,555	654	904	594	5,707
Income tax expense	451	240	149	104	944
Capital expenditures (1)	6,850	5,701	12	2	12,565

Three months ended June 30, 2013	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	$ 14,331	$ 12,783	$ 22,462	$ —	$ 49,576
Depreciation and amortization	5,363	3,141	179	141	8,824
Net interest expense	44	220	18	509	791
Finance fees	—	—	—	71	71
Earnings (loss) before income tax	(270)	(1,441)	658	61	(992)
Income tax expense (recovery)	(193)	(729)	(131)	48	(1,005)
Capital expenditures (1)	(1,721)	740	—	3	(978)

(1) Capital expenditures do not include purchases of intangible assets.

(in thousands of Canadian dollars)

Six months ended June 30, 2014	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	41,028	32,247	32,305	—	105,580
Depreciation and amortization	4,378	6,195	438	215	11,226
Net interest expense	45	115	24	950	1,134
Finance fees	—	—	—	187	187
Earnings (loss) before income tax	8,454	1,061	2,947	(1,090)	11,372
Income tax expense	1,391	377	570	130	2,468
Capital expenditures [(1)]	13,342	7,582	14	4	20,942
Goodwill	7,675	9,602	—	—	17,277
Total assets	108,024	107,505	1,145	2,151	218,825

Six months ended June 30, 2013	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	32,073	26,762	35,464	—	94,299
Depreciation and amortization	9,445	6,320	399	286	16,450
Net interest expense	76	427	36	966	1,505
Finance fees	—	—	—	143	143
Earnings (loss) before income tax	2,235	(398)	305	(1,510)	632
Income tax expense (recovery)	(52)	(488)	(10)	106	(444)
Capital expenditures [(1)]	(1,686)	2,632	203	11	1,160
Goodwill	7,675	9,602	—	—	17,277
Total assets	102,738	110,233	1,099	3,834	217,904

[(1)] Capital expenditures do not include purchases of intangible assets.

Revenue from continuing operations by geography	**Three months ended June 30,**		**Six months ended June 30,**	
	2014	**2013**	**2014**	**2013**
Canada	35,666	34,371	72,444	64,370
U.S.	18,026	15,205	33,136	29,929
Total	53,692	49,576	105,580	94,299

	As at June 30, 2014			**As at June 30, 2013**		
	Capital assets & goodwill	**Other assets**	**Total assets**	**Capital assets & goodwill**	**Other assets**	**Total assets**
Canada	80,931	30,389	111,320	73,304	34,366	107,670
U.S.	88,639	18,866	107,505	90,868	19,366	110,234
Total	169,570	49,255	218,825	164,172	53,732	217,904

(in thousands of Canadian dollars)

During the six months ended June 30, 2014, the Product Sales segment had intercompany sales of $0.3 million (2013 - $0.7 million) to the Canadian Operations segment and $3.2 million (2013 - $0.4 million) to the U.S. Operations segment, not included in the revenue figures above. Intercompany sales consist of in-house manufactured capital assets and inventory which are sold to the Canadian Operations and U.S. Operations segments. These transactions are eliminated upon consolidation.

17 Capital structure

The Company's objectives when managing capital are to provide flexibility so as to maximize opportunities and to finance the growth of the Company, and to mitigate downside risk in changing economic environments. The Company's capital structure consists of shareholders' equity, bank indebtedness, long-term debt and finance leases.

	As at June 30, 2014	**As at December 31, 2013**
Bank indebtedness	988	1,879
Long-term debt	44,400	38,500
Finance leases	2,495	2,657
Total debt	47,883	43,036
Total equity	133,375	128,849
Total capitalization	181,258	171,885

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

The Company also manages capital to ensure compliance with the margin requirements and financial covenants on its credit facilities. The Company monitors compliance with these requirements on an ongoing basis and forecasts regularly to assess how certain activities may impact compliance in future periods. As at June 30, 2014, the Company is in compliance with respect to these covenants.

18 Financial instruments

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

Credit Risk

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

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

(in thousands of Canadian dollars)

	As at June 30, 2014	As at December 31, 2013
Under 30 days	$ 26,775	$ 25,857
31-60 days	6,501	5,531
61-90 days	2,858	3,168
Over 90 days	1,492	1,013
Trade receivables	37,626	35,569

As at June 30, 2014, the Company had an allowance for doubtful accounts of $0.7 million (2013 - $0.7 million) with respect to potentially uncollectible accounts. The Company has significant exposure to one customer that accounted for 10% (2013 -13%) of revenue from operations for the period ended June 30, 2014. No other customers accounted for more than 10% of revenue from operations.

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

Liquidity Risk

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

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

	2014	**2015**	**2016**	**2017**	**2018**
	Less than 1 year	1 – 2 years	2 - 3 years	3 – 4 years	4 – 5 years
Accounts payable and accrued liabilities	$ 25,241	$ —	$ —	$ —	$ —
Bank indebtedness (1)	1,029	—	—	—	—
Long-term debt (1)	1,534	1,534	44,504	—	—
Obligations under finance lease (1)	742	827	801	128	—
Dividends payable	2,608	—	—	—	—
Total	31,154	2,361	45,305	128	—

(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. For the period ended June 30, 2014, if the exchange rate had weakened by 1% against the Canadian dollar with all other variables constant, after tax net earnings would have decreased by $4 thousand (2013 - $9 thousand). An equal and opposite impact would have occurred to after tax net earnings if the exchange rate had strengthened by 1% against the Canadian dollar.

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its borrowings which are at floating rates. For the period ended June 30, 2014, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately $177 thousand higher (2013 - $224 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, 2014.

19 Fair value measurement

Fair values of financial assets and liabilities

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

		As at June 30, 2014		**As at December 31, 2013**
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
Loans and receivables:				
Trade receivables	37,626	37,626	35,569	35,569
Deposits	266	266	557	557
Note receivable	178	178	350	350
Financial liabilities:				
Bank indebtedness	988	988	1,879	1,879
Accounts payable and accrued liabilities	25,241	25,241	25,403	25,403
Long-term debt	44,400	44,400	38,500	38,500
Obligations under finance lease	2,495	2,495	2,657	2,657
Dividends payable	2,608	2,608	2,050	2,050

(in thousands of Canadian dollars)

20 Related party transactions

Loans to key management

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

	For the period ended	
	June 30, 2014	**December 31, 2013**
Opening balance	$ 1,467	$ 1,845
Share purchase loans issued	—	99
Repayment of share purchase loan	—	(459)
Interest charged	12	25
Interest paid	(12)	(43)
	1,467	1,467

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

For the period ended June 30, 2014, there were no loan advances made to key management (year-ended December 31, 2013 - $99 thousand) and loan principal repayments of $nil were received (year-ended December 31, 2013 - $459 thousand).

For the period ended June 30, 2014, interest of $12 thousand was charged by the Company on loans to key management (year-ended December 31, 2013 - $25 thousand) and interest repayments of $12 thousand were received (year-ended December 31, 2013 – $43 thousand).

21 Comparative figures

During the first quarter of 2014, management completed a comprehensive review of the Company’s definition of selling, general and administration expenses. The review gave consideration to employees who were previously classified in selling, general and administration and the job functions those individuals were performing for the Company. As a result of this review, management determined that a portion of these employees perform functions which are more closely related to the operations of the business and reclassified the respective costs to operating expenses in the current year. Management has reclassified $0.9 million and $3.4 million of selling, general and administrative costs to operating expenses for the three and six months ended June 30, 2013, respectively.