Strad Energy Services Ltd.

Unaudited Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2015 and 2014

Strad Energy Services Ltd.

Interim Consolidated Statement of Financial Position

(Unaudited)

(in thousands of Canadian dollars)	**As at June 30, 2015** $	**As at December 31, 2014** $ (Revised - See note 2)	**As at January 1, 2014** $ (Revised - See note 2)
Assets			
Current assets			
Trade receivables (note 19)	24,387	48,542	35,569
Inventories (note 5)	6,285	7,400	5,788
Prepaids and deposits	1,835	1,741	1,772
Note receivable	—	—	350
Income taxes receivable	582	—	40
	33,089	57,683	43,519
Assets held for sale (note 6)	—	260	3,167
Non-current assets			
Property, plant and equipment (note 7)	157,166	159,100	142,108
Intangible assets (note 8)	1,006	1,210	1,685
Long term assets (note 9)	2,013	1,914	—
Goodwill	17,277	17,277	17,277
Deferred income tax assets	150	15	164
Total assets	210,701	237,459	207,920
Liabilities			
Current liabilities			
Bank indebtedness (note 10)	4,313	826	1,879
Accounts payable and accrued liabilities	11,601	25,207	20,854
Income taxes payable	—	1,579	—
Deferred revenue	32	259	785
Current portion of obligations under finance lease (note 11)	938	882	1,887
Dividend payable	2,609	2,609	2,050
	19,493	31,362	27,455
Non-current liabilities			
Long-term debt (note 12)	22,500	36,000	38,500
Obligations under finance lease (note 11)	471	969	770
Deferred income tax liabilities	12,844	14,138	7,797
Total liabilities	55,308	82,469	74,522
Equity			
Share capital (note 13)	118,361	118,351	117,824
Contributed surplus (note 13)	11,921	11,757	11,612
Accumulated other comprehensive income	20,080	12,950	5,152
Retained earnings (deficit)	5,031	11,932	(1,190)
Total equity	155,393	154,990	133,398
Total liabilities and equity	210,701	237,459	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, 2015 and 2014
(Unaudited)

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

	Three months ended June 30,		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Revenue	29,907	53,692	64,277	105,580
Expenses				
Operating expenses (note 22)	22,130	35,585	44,835	70,791
Depreciation	6,869	5,556	13,745	10,857
Amortization of intangible assets	129	183	276	369
Amortization of long term assets	22	—	44	—
Selling, general and administration (note 22)	3,844	5,685	8,363	11,241
Share-based payments	79	122	168	260
Gain on disposal of property, plant and equipment	(80)	(241)	(125)	(999)
Foreign exchange (gain) loss	(81)	236	(216)	169
Finance fees	50	99	97	187
Interest expense	391	599	887	1,134
Loss on assets held for sale	—	161	—	199
(Loss) Income before income tax	(3,446)	5,707	(3,797)	11,372
Income tax (recovery) expense (note 14)	(1,559)	944	(2,114)	2,468
Net (loss) income for the period	(1,887)	4,763	(1,683)	8,904
Other comprehensive (loss) income				
Items that may be reclassified subsequently to net (loss) income				
Cumulative translation adjustment (Revised - See note 2)	(1,826)	(2,863)	7,130	318
Total comprehensive (loss) income for the period	(3,713)	1,900	5,447	9,222
(Loss) earnings per share:				
Basic	($0.05)	$0.13	($0.05)	$0.24
Diluted	($0.05)	$0.13	($0.05)	$0.24

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)

	Share capital $	Contributed surplus $	Accumulated other comprehensive income $ (Revised - see note 2)	Retained earnings (deficit) $	Total equity $ (Revised - see note 2)
	Attributable to equity owners of the Company				
Balance - January 1, 2015	118,351	11,757	12,950	11,932	154,990
Net loss for the period	—	—	—	(1,683)	(1,683)
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	7,130	—	7,130
Comprehensive income for the period	—	—	7,130	(1,683)	5,447
Exercise of options (note 13)	4	(4)	—	—	—
Shareholder loans (net) (note 13)	6	—	—	—	6
Dividends declared	—	—	—	(5,218)	(5,218)
Employee share options:					
Value of services recognized	—	168	—	—	168
Balance - June 30, 2015	118,361	11,921	20,080	5,031	155,393
Balance - January 1, 2014	117,824	11,612	5,152	(1,190)	133,398
Net income for the period	—	—	—	8,904	8,904
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	318	—	318
Comprehensive income for the period	—	—	318	8,904	9,222
Exercise of options	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	5,470	3,056	138,129

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, 2015 and 2014
(Unaudited)

(in thousands of Canadian dollars)

Cash flow provided by (used in)	2015 $	2014 $ (Revised - See note 2)
Operating activities		
Net (loss) income for the period	(1,683)	8,904
Adjustments for items not affecting cash:		
Depreciation and amortization	14,065	11,226
Deferred income tax (recovery) expense (note 14)	(1,990)	1,889
Share-based payments	168	159
Interest expense and finance fees	984	1,321
Gain on disposal of property, plant and equipment	(125)	(999)
Loss on assets held for sale	—	199
Changes in items of non-cash working capital (note 16)	11,720	(7,766)
Net cash generated from operating activities	23,139	14,933
Investing activities		
Purchase of property, plant and equipment	(7,435)	(20,942)
Proceeds from sale of property, plant and equipment	2,267	2,826
Purchase of intangible assets	(74)	(263)
Proceeds from assets held for sale	—	558
Changes in items of non-cash working capital (note 16)	(2,541)	3,014
Net cash used in investing activities	(7,783)	(14,807)
Financing activities		
Proceeds on issuance of long-term debt	—	8,000
Repayment of long-term debt	(13,500)	(2,100)
Repayment of finance lease obligations (net)	(597)	(162)
Issuance of shareholder loan (net of repayments)	6	—
Interest expense and finance fees	(984)	(1,321)
Payment of dividends	(5,218)	(4,100)
Changes in items of non-cash working capital (note 16)	3	424
Net cash (used) generated in financing activities	(20,290)	741
Effect of exchange rate changes on cash and cash equivalents	1,447	24
(Decrease) increase in cash and cash equivalents	(3,487)	891
Cash and cash equivalents (including bank indebtedness) – beginning of year	(826)	(1,879)
Cash and cash equivalents (including bank indebtedness) – end of period	(4,313)	(988)
Cash paid for income tax	1,882	744
Cash paid for interest	648	1,113

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, 2015 and 2014, 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 5, 2015.

2 Revision of prior period comparatives

A review of the Company's intercompany payable transactions denominated in Canadian dollars in the Company’s U.S. foreign operation was undertaken in the first quarter of 2015. Upon completion of the review, an overstatement of accounts payable and accrued liabilities (“A/P”) and understatement of accumulated other comprehensive income (“AOCI”), an equity account, in the amount of approximately $9.5 million at December 31, 2014 ($4.5 million at December 31, 2013) was identified.

At inception of the intercompany A/P balance in 2011, the Company’s U.S. foreign operation (which has a USD functional currency) translated the CAD denominated inter-company A/P balance into USD. At each period-end, the USD inter-company A/P amount was translated from USD to CAD at the period-end rate. The foreign currency translation on the USD denominated inter-company payable was accumulating in A/P rather than accumulating in AOCI, which resulted in an overstatement of A/P and understatement of AOCI on the consolidated statement of financial position at each period-end. In the consolidated statement of cash flow, there was an overstatement of changes in items of non-cash working capital of $5.0 million for the year ended December 31, 2014 ($3.5 million for the year ended December 31, 2013) and an offsetting understatement of effect of exchange rate changes on cash and cash equivalents of the same amounts for the respective periods. The overstatement/understatement had no impact on net income, earnings per share or the Company’s cash position at any of the periods affected.

The Company considers the intercompany receivable (in Canada) and inter-company payable (in U.S.) to be part of the Company’s net investment in its U.S. foreign operation; therefore, the inter-company balances should be treated similarly to an equity transaction on consolidation, with foreign exchange differences accumulating in AOCI.

The Company assessed the materiality of the overstatement/understatement and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised its comparative consolidated financial statements to correct the effect of this matter.

The following tables present the effect of this correction on individual line items within the Company’s consolidated statements of financial position, comprehensive income, changes in equity and cash flow:

(in thousands of Canadian dollars)

	As at December 31, 2014		
	As previously reported	Adjustment	As revised
Accounts Payable	$ 34,705	$ (9,498)	$ 25,207
Accumulated other comprehensive income	3,452	9,498	12,950

	As at December 31, 2013			As at January 1, 2013		
	As previously reported	Adjustment	As revised	As previously reported	Adjustment	As revised
Accounts Payable	$ 25,403	$ (4,549)	$ 20,854	$ 24,244	$ (1,031)	$ 23,213
Accumulated other comprehensive income	603	4,549	5,152	(1,451)	1,031	(420)

	Three months ended March 31, 2014		
	As previously reported	Adjustment	As revised
Total comprehensive income	$ 5,183	$ 2,139	$ 7,322
Change in non-cash working capital	(1,483)	(2,139)	(3,622)
Effect of exchange rate changes on cash and cash equivalents	(1,901)	2,139	238

	Three months ended June 30, 2014			Six months ended June 30, 2014		
	As previously reported	Adjustment	As revised	As previously reported	Adjustment	As revised
Total comprehensive income	$ 3,834	$ (1,934)	$ 1,900	$ 9,017	$ 205	$ 9,222
Change in non-cash working capital				(7,561)	(205)	(7,766)
Effect of exchange rate changes on cash and cash equivalents				(181)	205	24

	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	As previously reported	Adjustment	As revised	As previously reported	Adjustment	As revised
Total comprehensive income	$ 9,353	$ 2,728	$ 12,081	$ 18,370	$ 2,933	$ 21,303
Change in non-cash working capital				(8,802)	(2,933)	(11,735)
Effect of exchange rate changes on cash and cash equivalents				(2,460)	2,933	473

	Year ended December 31, 2014			Year ended December 31, 2013		
	As previously reported	Adjustment	As revised	As previously reported	Adjustment	As revised
Total comprehensive income	$ 25,846	$ 4,949	$ 30,795	$ 7,426	$ 3,518	$ 10,944
Change in non-cash working capital	(5,867)	(4,949)	(10,816)	10,994	(3,518)	7,476
Effect of exchange rate changes on cash and cash equivalents	(1,344)	4,949	3,605	(3,049)	3,518	469

(in thousands of Canadian dollars)

3 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, 2014.

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued, effective and outstanding as of August 5, 2015, 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, 2015, 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, 2014.

4 Future accounting policy and disclosures

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, 2018, 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, 2014.

(in thousands of Canadian dollars)

5 Inventories

	As at June 30, 2015	As at December 31, 2014
Raw materials	$ 1,680	$ 3,105
Finished goods	4,605	4,295
	6,285	7,400

The cost of inventories recognized as expense and included in ‘Operating expenses’ for the six months ended June 30, 2015, amounted to $8.3 million (2014 - $24.7 million). During the six months ended June 30, 2015 and 2014, the Company had no write-downs of inventories to net realizable value.

6 Assets held for sale

	Equipment – Canadian Operations	Equipment – U.S. Operations	Total
As at December 31, 2014	$ 82	$ 178	$ 260
Foreign currency translation	—	13	13
Transfers to property, plant and equipment	(82)	(191)	(273)
As at June 30, 2015	—	—	—

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

(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, 2014	$ 223,760	$ 12,950	$ 5,214	$ 2,656	$ 1,952	$ 246,532
Capital expenditures	7,135	188	13	20	79	7,435
Divestitures and transfers	(2,496)	(1,886)	985	—	—	(3,397)
Reclassification	(119)	—	119	—	—	—
Foreign currency translation	9,156	324	68	73	32	9,653
As at June 30, 2015	237,436	11,576	6,399	2,749	2,063	260,223

	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	38,275	2,907	769	136	40	42,127
Divestitures and transfers	(13,001)	(5,626)	(2,276)	(541)	(335)	(21,779)
Reclassification	58	(515)	457	—	—	—
Other	64	—	—	—	—	64
Foreign currency translation	9,836	354	61	83	50	10,384
As at December 31, 2014	223,760	12,950	5,214	2,656	1,952	246,532

Accumulated Depreciation

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2014	$ 73,506	$ 7,680	$ 2,723	$ 1,697	$ 1,826	$ 87,432
Depreciation	12,111	1,060	338	184	52	13,745
Divestitures and transfers	(1,701)	(1,268)	1,453	—	—	(1,516)
Reclassification	(44)	—	44	—	—	—
Foreign currency translation	3,145	136	33	51	31	3,396
As at June 30, 2015	87,017	7,608	4,591	1,932	1,909	103,057

	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	19,941	2,302	833	579	197	23,852
Divestitures and transfers	(7,468)	(3,714)	(1,544)	(519)	(127)	(13,372)
Reclassification	39	(266)	227	—	—	—
Other	23	—	—	—	—	23
Foreign currency translation	3,057	133	27	52	32	3,301
As at December 31, 2014	73,506	7,680	2,723	1,697	1,826	87,432

Net book value

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2014	$ 150,254	$ 5,270	$ 2,491	$ 959	$ 126	$ 159,100
As at June 30, 2015	150,419	3,968	1,808	817	154	157,166

[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 $248 thousand (December 31, 2014 - $286 thousand) and $2.0 million (December 31, 2014 - $2.4 million) respectively.

(in thousands of Canadian dollars)

8 Intangible assets

Cost

	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2014	$ 3,239	$ 900	$ 1,980	$ 5,219
Capital expenditures	—	—	74	74
Foreign currency translation	31	—	38	69
Other	(17)	—	—	(17)
As at June 30, 2015	3,253	900	2,092	5,345

	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 3,025	$ 900	$ 1,947	$ 4,972
Capital expenditures	277	—	35	312
Other	(98)	—	—	(98)
Foreign currency translation	35	—	(2)	33
As at December 31, 2014	3,239	900	1,980	5,219

Accumulated Amortization

	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2014	$ 2,360	$ 900	$ 1,649	$ 4,009
Amortization	123	—	153	276
Foreign currency translation	24	—	30	54
As at June 30, 2015	2,507	900	1,832	4,339

	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 2,029	$ 898	$ 1,260	$ 3,289
Amortization	310	2	404	716
Divestitures	—		(45)	(45)
Foreign currency translation	21	—	30	51
As at December 31, 2014	2,360	900	1,649	4,011

Net Book Value

As at December 31, 2014	$ 879	$ —	$ 331	$ 1,210
As at June 30, 2015	746	—	260	1,006

(in thousands of Canadian dollars)

9 Long-term assets

Cost

As at December 31, 2014	$	1,914
Foreign currency translation		144
As at June 30, 2015		2,058

Accumulated Amortization

As at December 31, 2014	$	—
Amortization		44
Foreign currency translation		1
As at June 30, 2015		45

Net book value

As at December 31, 2014	$	1,914
As at June 30, 2015		2,013

Long-term assets consist of land and building that are included in the U.S. Operations segment (see note 17).

10 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. As at June 30, 2015, the Company had access to the entire $110.0 million credit facilities. The syndicated banking facility bears interest at a variable rate, which is dependent on the Company's funded debt(1) to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")(2) ratio.

Based on the Company's current funded debt to EBITDA ratio at June 30, 2015, the interest rate on the syndicated credit facility is bank prime plus 0.75% on prime rate advances and at the prevailing rate plus a stamping fee of 1.75% on bankers' acceptances. The syndicated credit facility matures on September 30, 2017. For the six months ended June 30, 2015, the overall effective rate on the operating facility was 4.18% (six months ended June 30, 2014 - 4.16%). At June 30, 2015, $4.3 million (December 31, 2014 - $0.8 million) was drawn on the operating facility. All bank covenants are in compliance as at June 30, 2015. The calculations of the Company's financial covenants for its syndicated banking facility are shown below:

Financial Debt Covenants	As at June 30, 2015
Funded debt(1) to EBITDA(2) ratio (not to exceed 3.0:1.0)	0.6 : 1.0
EBITDA to interest expense(3) ratio (no less than 3.0:1.0)	24.4 : 1.0

(1) Funded debt includes bank indebtedness plus long-term debt plus current and long-term obligations under finance lease less cash.
(2) EBITDA is based on trailing twelve months adjusted EBITDA plus share based payments.
(3) Interest coverage ratio is calculated as the ratio of trailing twelve months adjusted EBITDA plus share based payments to trailing twelve months interest expense on loans and borrowings.

(in thousands of Canadian dollars)

11 Obligations under finance lease

		As at June 30, 2015		As at December 31, 2014
Equipment under finance lease	$	1,409	$	1,851
Current portion		938		882
Long-term portion		471		969

The finance leases bear interest ranging from 0% to 7% at June 30, 2015.

12 Long-term debt

		As at June 30, 2015		As at December 31, 2014
Revolving facility	$	22,500	$	36,000
Current portion		—		—
Long-term portion		22,500		36,000

As at June 30, 2015, the Company had access to the maximum available $85.0 million revolving facility (see note 10) of which $22.5 million was drawn. Required monthly payments are interest only with the principal due September 30, 2017. The overall effective rate on the revolving facility at June 30, 2015, was 3.35% (2014 – 3.45%).

13 Share capital

a) Authorized

An unlimited number of Classes A, B, C, D, E and F shares without nominal or par value.
As at June 30, 2015, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	Six months ended June 30, 2015		Year-ended December 31, 2014	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	37,279,200	118,351	37,251,301	117,824
Shareholder loan - repayment	—	59	—	439
Shareholder loan - issuance	—	(50)	—	(25)
Interest on shareholder loans	—	(3)	—	(22)
Exercise of options	1,197	4	27,899	135
Total common shares, end of period	37,280,397	118,361	37,279,200	118,351

(in thousands of Canadian dollars)

c) Share-based payments

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

Options granted under the previous plan have a term of six years and either vest one-third on each of the second, third and fourth anniversary dates of the grant date or one-half on each of the first and second anniversary dates of the grant date. As at June 30, 2015, options can be exercised for shares or net shares.

	As at June 30, 2015		**As at December 31, 2014**	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,239,174	$3.79	2,326,834	$3.80
Granted	541,500	$2.83	656,000	$3.71
Exercised	(8,000)	$2.50	(356,978)	$3.70
Expired - vested	(5,000)	$4.00	(145,000)	$4.00
Forfeited - vested	(71,160)	$3.92	(28,994)	$4.32
Forfeited - unvested	(80,841)	$3.21	(212,688)	$3.73
Balance, end of period	2,615,673	$3.60	2,239,174	$3.78

The Company recognized compensation expense of $168 thousand during the six months ended June 30, 2015, (2014 - $260 thousand). During the six months ended June 30, 2015, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate - 0.53%, expected volatility - 41%, forfeiture rate of 22% and an expected quarterly dividend of 7.0 cents per share.

d) Contributed surplus

	Six months ended June 30, 2015	**Year-ended December 31, 2014**
Balance, beginning of year	$ 11,757	$ 11,612
Share-based payments expense	168	480
Exercise of options	(4)	(335)
Balance, end of period	11,921	11,757

(in thousands of Canadian dollars)

e) Per share amounts

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic weighted average shares outstanding	36,915,561	36,732,124	36,913,520	36,732,739
Dilutive effect of stock options	62,663	426,039	55,817	300,514
Dilutive effect of shareholder loans	364,547	521,639	366,198	521,639
Diluted weighted average shares outstanding	37,342,771	37,679,802	37,335,535	37,554,892

f) Dividend payable

On both January 9, 2015, and April 10, 2015, the Company paid a dividend of 7.0 cents per share. On May 6, 2015, the Company's Board of Directors declared a dividend payable on July 10, 2015, to shareholders of record at the close of business on June 30, 2015.

14 Income tax

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Current income tax (recovery) expense	$ (18)	$ (81)	$ (124)	$ 579
Deferred income tax (recovery) expense	(1,541)	1,025	(1,990)	1,889
Income tax (recovery) expense	(1,559)	944	(2,114)	2,468

15 Commitments and contingencies

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

	As at June 30, 2015	As at December 31, 2014
2015	$ 2,975	$ 4,619
2016	3,928	3,627
2017	3,006	2,714
2018	2,139	1,859
2019	1,765	1,550
2020 and thereafter	3,127	2,947
	16,940	17,316

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.

(in thousands of Canadian dollars)

16 Changes in non-cash working capital

	For the six months ended	
	June 30, 2015	June 30, 2014 Revised (see note 2)
Trade receivables	$ 24,155	$ (2,057)
Inventories	1,115	(555)
Prepaids and deposits	(94)	(729)
Income taxes receivable	(582)	(25)
Notes receivable	—	172
Accounts payable and accrued liabilities	(13,606)	(367)
Deferred revenue	(227)	(767)
Income taxes payable	(1,579)	—
Changes in items of non-cash working capital	9,182	(4,328)
Changes in items of non-cash working capital - investing	(2,541)	3,014
Changes in items of non-cash working capital - financing	3	424
Changes in items of non-cash working capital - operating	11,720	(7,766)
Changes in items of non-cash working capital	9,182	(4,328)

17 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, which include Surface Equipment, Environmental & Access Matting, Solids Control and Waste Management, Drill Pipe, EcoPond® (frac-water storage) and Matting Manufacturing to exploration and production companies in the oil and natural gas industry. Surface Equipment offerings provide support to drilling and completions projects for the oil and natural gas industry from start to finish. Environmental & Access Matting is used for a variety of applications from roads to rig site platforms and is proven to increase access to remote locations, protect sensitive terrain from damage and reduce reclamation costs. Solids Control and Waste Management is a closed-loop, zero discharge solids control and waste management system solution that is designed to maximize separation efficiency, lower drilling costs, reduce dilution volumes, and meet stricter environmental practices and standards. Drill Pipe is a comprehensive range of drilling-related subsurface equipment for purchase, lease or rent including drill pipe, heavy weight drill pipe, drill collars, and other handling equipment. EcoPond® is a frac-water storage solution that is designed to work safely, reduce environmental impact and lower completion costs. 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.

Corporate 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.

(in thousands of Canadian dollars)

Three months ended June 30, 2015	**Canadian Operations**	**U.S. Operations**	**Product Sales**	**Corporate**	**Total**
Revenue	$ 15,080	$ 9,406	$ 5,421	$ —	$ 29,907
Depreciation and amortization	2,277	4,533	114	96	7,020
Net interest expense	68	9	15	299	391
Finance fees	—	—	—	50	50
Earnings (loss) before income tax	1,221	(2,412)	70	(2,325)	(3,446)
Income tax expense (recovery)	741	(2,360)	59	1	(1,559)
Capital expenditures [1]	131	351	—	(6)	476

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

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 (loss) before income tax	3,555	3,001	904	(1,753)	5,707
Income tax expense	451	240	149	104	944
Capital expenditures [1]	6,850	5,701	12	2	12,565

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

(in thousands of Canadian dollars)

Six months ended June 30, 2015	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 32,978	$ 23,493	$ 7,806	$ —	$ 64,277
Depreciation and amortization	4,520	9,125	225	195	14,065
Net interest expense	90	95	22	680	887
Finance fees	—	—	—	97	97
Earnings (loss) before income tax	2,061	(4,030)	79	(1,907)	(3,797)
Income tax expense (recovery)	770	(2,974)	34	56	(2,114)
Capital expenditures [1]	5,383	1,980	—	72	7,435
Goodwill	7,675	9,602	—	—	17,277
Total assets	103,680	105,137	545	1,339	210,701

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

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	3,408	2,947	(3,437)	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

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

Revenue by geography	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Canada	$ 20,480	$ 35,666	$ 40,339	$ 72,444
U.S.	9,427	18,026	23,938	33,136
Total	29,907	53,692	64,277	105,580

Revenue is allocated to each geographic location based on the country in which the revenue is generated.

	As at June 30, 2015			As at June 30, 2014		
	Capital assets, intangible assets & goodwill	Other assets	Total assets	Capital assets, intangible assets & goodwill	Other assets	Total assets
Canada	$ 82,535	$ 23,029	$ 105,564	$ 80,931	$ 30,389	$ 111,320
U.S.	92,913	12,224	105,137	88,639	18,866	107,505
Total	175,448	35,253	210,701	169,570	49,255	218,825

(in thousands of Canadian dollars)

During the six months ended June 30, 2015, the Product Sales segment had intercompany sales of $0.4 million (2014 - $0.3 million) to the Canadian Operations segment and $nil (2014 - $3.2 million) to the U.S. Operations segment, not included in the revenue figures above. Intercompany sales consist of in-house manufactured capital assets and inventory which are sold to the Canadian Operations and U.S. Operations segments. These transactions are eliminated upon consolidation.

18 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, 2015		As at December 31, 2014
Bank indebtedness	$	4,313	$	826
Long-term debt		22,500		36,000
Finance leases		1,409		1,851
Total debt		28,222		38,677
Total equity		155,393		154,990
Total capitalization		183,615		193,667

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, 2015, the Company is in compliance with respect to these covenants (see note 10).

19 Financial instruments

The Company's financial instruments consist of trade receivables, prepaids and deposits, bank indebtedness, accounts payable and accrued liabilities, long-term debt, obligations under finance lease and dividend 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, 2015	As at December 31, 2014
Under 30 days	$ 15,364	$ 35,010
31-60 days	4,327	8,783
61-90 days	2,689	2,339
Over 90 days	2,007	2,410
Trade receivables	24,387	48,542

As at June 30, 2015, the Company had an allowance for doubtful accounts of $1.3 million (December 31, 2014 - $1.0 million) with respect to potentially uncollectible accounts. The Company does not have significant exposure to any one customer that accounted for more than 10% (June 30, 2014 - one customer at 10%) of revenue from operations for the six months ended June 30, 2015.

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 receivables. None of these financial assets, other than the $1.3 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:

	2015 Less than 1 year	2016 1 – 2 years	2017 2 - 3 years
Accounts payable and accrued liabilities	$ 11,601	$ —	$ —
Bank indebtedness [(1)]	4,493	—	—
Long-term debt [(1)]	753	753	22,688
Obligations under finance lease [(1)]	611	907	154
Dividends payable	2,609	—	—
Total	20,067	1,660	22,842

[(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, 2015, 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 $59 thousand (2014 - $4 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, 2015, 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 (2014 - $177 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, 2015.

20 Fair value measurement

<u>Fair values of financial assets and liabilities</u>

The Company's financial instruments consist of trade receivables, deposits, bank indebtedness, accounts payable and accrued liabilities, long-term debt, obligations under finance lease and dividend payable. The fair value of trade receivables, bank indebtedness, accounts payable and accrued liabilities, obligations under finance lease and dividend 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, 2015		**As at December 31, 2014**
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
Loans and receivables:				
Trade receivables	$ 24,387	$ 24,387	$ 48,542	$ 48,542
Deposits	879	879	721	721
Financial liabilities:				
Bank indebtedness	4,313	4,313	826	826
Accounts payable and accrued liabilities	11,601	11,601	25,207	25,207
Long-term debt	22,500	22,500	36,000	36,000
Obligations under finance lease	1,409	1,409	1,851	1,851
Dividends payable	2,609	2,609	2,609	2,609

(in thousands of Canadian dollars)

21 Related party transactions

Loans to key management

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

	For the period ended June 30, 2015	For the period ended December 31, 2014
Opening balance	$ 1,050	$ 1,467
Repayment of share purchase loan	(53)	(421)
Interest charged	3	22
Interest paid	(7)	(18)
	993	1,050

Certain key management personnel and directors have loans outstanding totaling $1.0 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, 2015, there were no loan advances made to key management (year-ended December 31, 2014 - $nil) and loan principal repayments of $53 thousand were received (year-ended December 31, 2014 - $421 thousand).

For the period ended June 30, 2015, interest of $3 thousand was charged by the Company on loans to key management (year-ended December 31, 2014 - $22 thousand) and interest repayments of $7 thousand were received (year-ended December 31, 2014 – $18 thousand).

22 Expenses by Nature

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Operating Expenses				
Direct expenses:				
Rental expenses	$ 1,879	$ 2,568	$ 4,260	$ 5,948
Service and trucking	9,464	11,714	20,728	23,380
Cost of sales and consumables	5,737	15,587	8,799	29,302
Total direct expenses	17,080	29,869	33,787	58,630
Indirect expenses:				
Personnel costs	2,922	3,962	6,643	8,401
Occupancy and other	2,128	1,754	4,405	3,760
Total indirect expenses	5,050	5,716	11,048	12,161
Total Operating Expenses	22,130	35,585	44,835	70,791

(in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Selling, general and administrative expenses				
Personnel costs	$ 2,983	$ 4,526	$ 6,399	$ 9,165
Occupancy and other	861	1,159	1,964	2,076
Total selling, general and administrative expenses	3,844	5,685	8,363	11,241