

# **Strad Energy Services Ltd.**

Unaudited Condensed Interim Consolidated Financial Statements  
**As at and for the three and nine months ended September 30, 2012**

# Strad Energy Services Ltd.

## Interim Consolidated Statement of Financial Position

(Unaudited)

(in thousands of Canadian dollars)	As at September 30, 2012 \$	As at December 31, 2011 \$
<b>Assets</b>		
<b>Current assets</b>		
Trade receivables	42,771	49,466
Inventories (note 3)	8,444	7,950
Prepays and deposits	2,749	4,263
Current portion of notes receivable (note 4)	656	1,352
Income taxes receivable	618	-
	55,238	63,031
Assets held for sale (note 5)	2,094	-
<b>Non-current assets</b>		
Property, plant and equipment (note 6)	157,556	126,439
Intangible assets (note 7)	2,962	2,752
Notes receivable (note 4)	898	683
Goodwill	17,277	17,277
Deferred income taxes	302	2,873
	236,327	213,055
Assets of disposal group classified as held for sale (note 15)	-	14,056
<b>Total assets</b>	236,327	227,111
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 8)	3,515	5,570
Accounts payable and accrued liabilities	21,957	30,812
Deferred revenue	132	2,245
Current portion of obligations under finance lease (note 9)	2,976	4,383
Current portion of note payable (note 10)	492	-
Income taxes payable	-	3,392
Dividend payable (note 12)	2,049	-
	31,121	46,402
<b>Non-current liabilities</b>		
Long-term debt (note 11)	53,500	23,500
Obligations under finance lease (note 9)	2,514	3,282
Note payable (note 10)	984	-
Deferred income tax liabilities	13,103	13,666
	101,222	86,850
Liabilities of disposal group classified as held for sale (note 15)	-	6,988
<b>Total liabilities</b>	101,222	93,838
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (note 12)	117,672	157,042
Contributed surplus (note 12)	11,813	3,017
Accumulated other comprehensive loss	(1,756)	(585)
Retained earnings (deficit)	7,172	(28,260)
	134,901	131,214
<b>Non-controlling interests</b> (note 13)	204	2,059
<b>Total equity</b>	135,105	133,273
<b>Total liabilities and equity</b>	236,327	227,111
Subsequent event (note 22)		

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

# Strad Energy Services Ltd.

## Interim Consolidated Statement of Income

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Continuing operations</b>				
<b>Revenue</b>	51,094	62,675	161,699	126,174
<b>Expenses</b>				
Operating expenses	30,796	36,936	97,655	71,021
Depreciation	6,952	4,822	19,477	12,370
Amortization of intangible assets	410	392	1,141	1,115
Selling, general administration	8,050	8,123	24,568	19,520
Share-based payments	218	132	580	493
Loss (gain) on disposal of property, plant and equipment	22	52	46	(89)
Foreign exchange loss (gain)	510	(915)	879	(313)
Finance fees	63	31	179	31
Interest expense	854	457	1,936	1,145
<b>Income before income tax from continuing operations</b>	3,219	12,645	15,238	20,881
Income tax (note 14)	260	4,823	4,051	7,886
<b>Net income from continuing operations for the period</b>	2,959	7,822	11,187	12,995
<b>Income from discontinued operations, net of tax (note 15)</b>	0	111	437	415
<b>Net income for the period</b>	2,959	7,933	11,624	13,410
<b>Net income attributable to:</b>				
Owners of the parent	2,937	7,436	11,269	12,580
Non-controlling interests	22	497	355	830
	2,959	7,933	11,624	13,410
<b>Earnings per share from continuing operations attributable to the equity owners of the Company:</b>				
Basic	\$0.08	\$0.20	\$0.30	\$0.33
Diluted	\$0.08	\$0.20	\$0.29	\$0.33
<b>Earnings per share from discontinued operations attributable to the equity owners of the Company:</b>				
Basic	\$0.00	\$0.00	\$0.01	\$0.01
Diluted	\$0.00	\$0.00	\$0.01	\$0.01
<b>Earnings per share from total operations attributable to the equity owners of the Company:</b>				
Basic	\$0.08	\$0.20	\$0.31	\$0.34
Diluted	\$0.08	\$0.20	\$0.30	\$0.34

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

## Strad Energy Services Ltd.

### Interim Consolidated Statement of Comprehensive Income

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Net income for the year</b>	2,959	7,933	11,624	13,410
<b>Other comprehensive income (loss)</b>				
Cumulative translation adjustment	(1,002)	2,320	(1,171)	1,257
<b>Total other comprehensive income (loss)</b>	(1,002)	2,320	(1,171)	1,257
<b>Comprehensive income for the year</b>	1,957	10,253	10,453	14,667
<b>Comprehensive income attributable to:</b>				
Owners of the parent	1,935	9,524	10,098	13,711
Non-controlling interests	22	729	355	956
	1,957	10,253	10,453	14,667

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

**Strad Energy Services Ltd.**  
**Interim Consolidated Statement of Changes in Equity**  
**For the nine months ended September 30, 2012 and 2011**  
**(Unaudited)**

(in thousands of Canadian dollars)

**Attributable to equity owners of the Company**

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained earnings (deficit) \$	Total \$	Non- controlling Interest \$	Total equity \$
<b>Balance – January 1, 2012</b>	157,042	3,017	(585)	(28,260)	131,214	2,059	133,273
Net income for the period	-	-	-	11,269	11,269	355	11,624
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	(1,171)	-	(1,171)	-	(1,171)
Comprehensive (loss) income for the period	-	-	(1,171)	11,269	10,098	355	10,453
Reduction of stated capital (note 12(g))	(39,086)	9,234	-	29,852	-	-	-
Exercise of options	24	(66)	-	-	(42)	-	(42)
Shareholder loan repayment	271	-	-	-	271	-	271
Shareholder loans issued (note 20)	(579)	-	-	-	(579)	-	(579)
Purchase of non-controlling interest (note 13)	-	(821)	-	(1,592)	(2,413)	(2,214)	(4,627)
Dividend declared (note 12)	-	-	-	(4,097)	(4,097)	-	(4,097)
Employee share options:							
Value of services recognized	-	383	-	-	383	-	383
Reversal of cumulative translation adjustment on purchased non-controlling interest	-	61	-	-	61	-	61
Other	-	5	-	-	5	4	9
<b>Balance – September 30, 2012</b>	<b>117,672</b>	<b>11,813</b>	<b>(1,756)</b>	<b>7,172</b>	<b>134,901</b>	<b>204</b>	<b>135,105</b>
<b>Balance – January 1, 2011</b>	157,071	2,221	(832)	(18,235)	140,225	659	140,884
Net income for the period	-	-	-	12,580	12,580	830	13,410
Other comprehensive loss (net of tax):							
Cumulative translation adjustment	-	-	1,131	-	1,131	126	1,257
Comprehensive (loss) income for the period	-	-	1,131	12,580	13,711	956	14,667
Share issuance costs	(147)	-	-	-	(147)	-	(147)
Shareholder loan	119	-	-	-	119	-	119
Employee share options:							
Value of services recognized	-	642	-	-	642	-	642
<b>Balance – September 30, 2011</b>	<b>157,043</b>	<b>2,863</b>	<b>299</b>	<b>(5,655)</b>	<b>154,550</b>	<b>1,615</b>	<b>156,165</b>

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

**Strad Energy Services Ltd.**  
**Interim Consolidated Statement of Cash Flow**  
**For the nine months ended September 30, 2012 and 2011**  
**(Unaudited)**

(in thousands of Canadian dollars)

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>Cash flow provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	11,624	13,410
Adjustments for:		
Depreciation and amortization	20,618	16,460
Deferred income tax	2,176	5,670
Share-based payments	383	642
Interest expense	1,936	1,227
Finance fees	179	31
Loss (gain) on disposal of property, plant and equipment	46	(94)
Loss on sale of investment in subsidiary	441	-
Changes in items of non-cash working capital (note 16)	(4,306)	(8,406)
<b>Net cash generated from operating activities</b>	<b>33,097</b>	<b>28,940</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(53,451)	(55,552)
Proceeds from sale of property, plant and equipment	1,060	826
Purchase of intangible assets	(1,355)	(366)
Proceeds on sale of subsidiaries (note 15)	7,129	-
Purchase of assets held for sale	(2,094)	-
Purchase of non-controlling interest	(4,627)	-
<b>Net cash used in investing activities</b>	<b>(53,338)</b>	<b>(55,092)</b>
<b>Financing activities</b>		
Proceeds on issuance of long-term debt	33,000	57,000
Repayment of long-term debt	(3,000)	(25,500)
Repayment of finance lease obligations (net)	(3,199)	(4,343)
Share issuance costs	-	(147)
Issue of share capital	24	-
Issue of shareholder loan	(579)	-
Repayment of shareholder loan	271	119
Interest paid on debt	(1,936)	(1,227)
Finance fees	(179)	(31)
Payment of dividends	(2,049)	-
<b>Net cash generated from financing activities</b>	<b>22,353</b>	<b>25,871</b>
Effect of exchange rate changes on cash and cash equivalents	148	(2,135)
<b>(Decrease) in cash and cash equivalents</b>	<b>2,260</b>	<b>(2,416)</b>
<b>Cash and cash equivalents (including bank indebtedness) – beginning of period</b>	<b>(5,570)</b>	<b>8,416</b>
<b>Cash and cash equivalents included in liabilities of disposal group - beginning of period</b>	<b>(205)</b>	<b>-</b>
<b>Cash and cash equivalents (including bank indebtedness) – end of period</b>	<b>(3,515)</b>	<b>(6,000)</b>
Cash paid for income tax	5,521	-

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

**Strad Energy Services Ltd.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2012 and 2011**  
**(Unaudited)**

---

(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 activation 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 as at and for the period ended September 30, 2012, and 2011, comprise the Company and its subsidiaries.

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

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on November 8, 2012.

**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.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34, Interim Financial Reporting.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 8, 2012, 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, 2012, 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 financial statements at December 31, 2011.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### 3 Inventories

	As at September 30, 2012	As at December 31, 2011
Raw materials	\$ 6,642	\$ 7,526
Work in progress	207	179
Finished goods	1,595	245
	8,444	7,950

The cost of inventories recognized as expense and included in 'Operating expenses' for the nine months ended September 30, 2012 amounted to \$38.6 million (2011 - \$45.5 million).

During the nine months ended September 30, 2012 and September 30, 2011, the Company had no write-downs of inventories to net realizable value.

#### 4 Notes receivable

	As at September 30, 2012	As at December 31, 2011
Three-year notes receivable	\$ 1,554	\$ 1,000
Ninety-day note receivable	-	1,035
Less: Current portion	(656)	(1,352)
	898	683

On January 12, 2012, the Company sold its investment in Strad Production Services Ltd. and Sunwell Industries Ltd. (see note 15). As part of the consideration, the Company received a \$1.0 million three-year note receivable due January 12, 2015.

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 March 11, 2012, and a second \$1.0 million three-year note receivable due December 12, 2014.

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



## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### 5 Assets held for sale

The Company intends to sell and leaseback land and building with a collective carrying value of \$2.1 million. The land and building were purchased in April 2012 for \$1.4 million and improvements of \$0.7 million were made to the property during the three months ended September 30, 2012. Assets held for sale are accounted for at the lower of cost and net realizable value.

No impairment was recognized in the consolidated statement of income for the nine months ended September 30, 2012.

Assets held for sale are included in the U.S. Operations segment (note 17).

#### 6 Property, plant and equipment

##### Cost

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
As at December 31, 2011	172	310	4,691	1,010	1,352	5,796
Capital expenditures	-	14	3,097	170	176	3,483
Divestitures	-	-	(1,262)	-	-	(37)
Transfers	-	-	6	-	2	(2)
Foreign currency translation	5	-	(23)	(14)	(12)	(107)
As at September 30, 2012	177	324	6,509	1,166	1,518	9,133

	Assets Under Finance Lease				Total
	Leasehold improvements	Surface equipment	Surface equipment	Automotive equipment	
As at December 31, 2011	576	132,279	9,874	6,593	162,653
Capital expenditures	752	45,759	-	950	54,401
Divestitures	-	(202)	-	(444)	(1,945)
Transfers	-	(1,398)	-	50	(1,342)
Foreign currency translation	(5)	(2,916)	-	(109)	(3,181)
As at September 30, 2012	1,323	173,522	9,874	7,040	210,586

##### Accumulated Depreciation

	Land	Buildings	Automotive equipment	Furniture & fixtures	Computers	Tools & equipment
	\$	\$	\$	\$	\$	\$
As at December 31, 2011	-	235	1,928	284	828	2,081
Depreciation	-	38	824	144	206	964
Divestitures	-	-	(605)	-	-	(8)
Transfers	-	-	(20)	-	-	(1)
Foreign currency translation	-	(1)	(2)	(3)	(2)	(18)
As at September 30, 2012	-	272	2,125	425	1,032	3,018

##### Net book value

As at December 31, 2011	172	75	2,763	726	524	3,715
As at September 30, 2012	177	52	4,384	741	486	6,115

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

	<i>Assets Under Finance Lease</i>				Total
	Leasehold improvements	Surface equipment	Surface equipment	Automotive equipment	
As at December 31, 2011	302	24,542	4,579	1,435	36,214
Depreciation	207	15,106	587	1,401	19,477
Divestitures	-	(61)	-	(165)	(839)
Transfers	-	(1,321)	(1)	-	(1,343)
Foreign currency translation	(1)	(429)	(2)	(21)	(479)
As at September 30, 2012	508	37,837	5,163	2,650	53,030
<b>Net book value</b>					
As at December 31, 2011	274	107,737	5,295	5,158	126,439
As at September 30, 2012	815	135,685	4,711	4,390	157,556

## 7 Intangible assets

### Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2011	7,200	1,900	800	1,047	10,947
Capital expenditures	-	808	100	447	1,355
Foreign currency translation	-	-	-	(7)	(7)
As at September 30, 2012	7,200	2,708	900	1,487	12,295

### Accumulated Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2011	6,003	1,013	783	396	8,195
Amortization	672	153	37	279	1,141
Foreign currency translation	-	-	-	(3)	(3)
As at September 30, 2012	6,675	1,166	820	672	9,333
<b>Net book value</b>					
As at December 31, 2011	1,197	887	17	651	2,752
As at September 30, 2012	525	1,542	80	815	2,962

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### 8 Bank indebtedness

On August 25, 2012, the Company amended its syndicated credit facility, increasing the operating facility by \$10.0 million USD, decreasing standby rates charged on the undrawn portion of the committed facility and extending the maturity date to July 25, 2015. The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of \$15.0 million CAD and \$10.0 million USD and an \$85.0 million revolving facility, both of which are subject to certain limitations on accounts receivable, inventory and net book value of fixed assets and are secured by a general security agreement over the Company's assets. The syndicated credit facility bears interest at a variable rate which is dependent on the Company's funded debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Based on the Company's current funded debt to EBITDA ratio, the interest rate on the syndicated credit facility is bank prime plus 1.25% on prime rate advances and at the prevailing rate plus a stamping fee of 2.25% on bankers' acceptances. At September 30, 2012, the overall effective rate on the operating facility was 4.12%. At September 30, 2012, \$3.5 million was drawn on the operating facility. All bank covenants are in compliance at September 30, 2012.

#### 9 Obligations under finance lease

	As at September 30, 2012	As at December 31, 2011
Equipment under finance lease	\$ 5,490	\$ 7,665
Less: Current portion	(2,976)	(4,383)
	2,514	3,282

The finance leases bear interest ranging from 1% to 9% at September 30, 2012.

#### 10 Note payable

	As at September 30, 2012	As at December 31, 2011
1.5 year note payable	\$ 1,476	\$ -
Less: Current portion	(492)	-
	984	-

On May 31, 2012, a note payable of \$1.5M was issued as part of consideration paid for the acquisition of the remaining shares of the non-controlling interest in a subsidiary (Note 13).

The repayment terms of the 1.5 year note are principal payments of \$500 thousand due February 28, 2013, and \$1 million to be paid on November 30, 2013. Accumulated interest will be paid at the end of the term on November 30, 2013. The note bears interest at 3.0% annually.

# Strad Energy Services Ltd.

## Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

### 11 Long-term debt

	As at September 30, 2012	As at December 31, 2011
Revolving facility	\$ 53,500	\$ 23,500
Less: Current portion	-	-
	53,500	23,500

As at September 30, 2012, the Company had access to the maximum available \$85.0 million revolving facility (see note 8) of which \$53.5 million was drawn. Monthly payments are interest only with the principal due July 25, 2015. The overall effective rate on the revolving facility at September 30, 2012, was 3.78%.

### 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 September 30, 2012, there are no Class B, C, D, E or F shares outstanding.

#### b) Issued and outstanding

	For the nine months ended September 30, 2012		Year-ended December 31, 2011	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of period	37,246,384	157,042	37,246,384	157,071
Shareholder loan – repayment	-	271	-	118
Shareholder loan – issuance	-	(579)	-	-
Share issue costs	-	-	-	(147)
Reduction of stated capital (note 12(g))	-	(39,086)	-	-
Exercise of options	4,917	24	-	-
Total common shares, end of period	37,251,301	117,672	37,246,384	157,042

#### 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.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

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

	As at September 30, 2012		As at December 31, 2011	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,209,499	\$4.10	1,826,667	\$4.05
Granted	1,002,500	\$4.46	619,000	\$4.09
Exercised	(38,328)	\$3.86	-	-
Expired – vested	(380,000)	\$5.54	-	-
Forfeited – vested	(293,998)	\$4.83	(35,333)	\$5.70
Forfeited – unvested	(315,673)	\$3.54	(200,835)	\$3.36
Balance, end of period	2,184,000	\$4.00	2,209,499	\$4.10

The Company recognized compensation expense of \$218 thousand and \$383 thousand net of recoveries included in loss from discontinued operations (2011 -\$187 thousand and \$642 thousand) during the three and nine months ended September 30 2012, based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate between 1% and 4%, expected volatility between 40.45% and 55.96% and an expected quarterly dividend of 5.5 cents per share.

#### d) Contributed surplus

	Nine months ended September 30, 2012	Year-ended December 31, 2011
Balance, beginning of year	\$ 3,017	\$2,221
Share-based payments expense - continuing operations	580	643
Share-based payments (recovery) expense – discontinued operations	(197)	153
Exercise of options	(66)	-
Reduction of stated capital (note 12(g))	9,234	-
Repurchase of minority interest	(821)	-
Reversal of cumulative translation adjustment on purchased non-controlling interest	61	-
Other	5	-
Balance, end of period	11,813	3,017

#### e) Per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic weighted average shares outstanding	36,623,239	36,692,058	36,683,260	36,692,058
Dilutive effect of stock options	247,461	326,238	374,813	344,245
Dilutive effect of shareholder loans	628,062	-	565,212	-
Diluted weighted average shares outstanding	37,498,762	37,018,296	37,623,285	37,036,303

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### f) Dividend payable

On July 13, 2012, the Company paid a dividend of 5.5 cents per share. On August 8, 2012, the Company's Board of Directors declared a dividend of 5.5 cents per share, payable on October 12, 2012, to shareholders of record at the close of business on September 28, 2012.

#### g) Reduction of stated capital

On May 9, 2012, the shareholders of the Company approved a reduction in stated capital of the Company in the amount of \$39.1 million. The reduction of stated capital resulted in an increase in contributed surplus as disclosed in note 12(d), with the remaining amount eliminating the Company's deficit of \$28.3 million as at December 31, 2011.

### 13 Transactions with non-controlling interests

On March 1, 2012, the Company acquired the remaining 25% of the issued shares of one of its subsidiaries for purchase consideration of \$2.7 million. The Company now holds 100% of the equity share capital of the subsidiary. The carrying amount of the non-controlling interest in the subsidiary on the date of acquisition was \$1.1 million. The Company recorded a decrease in equity attributable to owners of the parent of \$1.6 million, representing the excess between the consideration and the carrying amount of the non-controlling interest. The effect of changes in the ownership interest in the subsidiary on the equity attributable to owners of the Company during the year is summarized in the table below.

On May 31, 2012, the Company acquired the remaining 10% of the class B issued shares of one of its subsidiaries for share purchase consideration of \$1.9 million USD. Consideration was in the form of a \$0.5 million cash payment and a \$1.5 million note payable (note 10). The Company now holds 100% of the equity share capital of the subsidiary. The carrying amount of the non-controlling interest in the subsidiary on the date of acquisition was \$1.1 million. The Company recorded a decrease in equity attributable to owners of the parent of \$0.8 million, representing the excess between the consideration and the carrying amount of the non-controlling interest.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Carrying amount of non-controlling interests acquired	\$ -	\$ -	\$ 2,214	\$ -
Consideration paid to non-controlling interests	-	-	4,627	-
Excess of consideration paid recognized in owners' equity	-	-	2,413	-

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### 14 Income tax

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Current income tax expense	\$ 788	\$ 2,074	\$ 1,875	\$ 2,094
Deferred income tax (recovery) expense	(528)	2,749	2,176	5,792
Income tax expense	260	4,823	4,051	7,886

#### 15 Discontinued operations and disposal groups held for sale

On January 12, 2012, the Company sold its 100% shareholdings in Strad Production Services Ltd. and Sunwell Industries Ltd. ("Production") to a related party, being a former executive of the Company. The Company received proceeds of \$8.4 million consisting of \$7.4 million cash and a \$1.0 million note receivable. The results and cash flows of the subsidiaries are disclosed as a discontinued operation in accordance with IFRS.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Analysis of the results of discontinued operations:</b>				
Revenue	\$ -	\$ 15,446	\$ 1,321	\$ 49,308
Expense	-	15,328	1,150	49,130
Income from ordinary activities of discontinued operations	-	118	171	178
Tax expense (recovery)	-	7	(707)	(237)
Income after tax of ordinary activities of discontinued operations	-	111	878	415
Loss recognized on sale of investment in subsidiary <sup>(1)</sup>	-	-	(441)	-
After-tax income <sup>(2)</sup>	-	111	437	415

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Current income tax expense (recovery) from discontinued operations	\$ -	\$ 301	\$ (707)	\$ (115)
Deferred income tax recovery from discontinued operations	-	(294)	-	(122)
Income tax expense(recovery) from discontinued operations	-	7	(707)	(237)

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>The net cash flows attributable to the operating, investing and financing activities of discontinued operations:</b>				
Operating cash flows	\$ -	\$(3,515)	\$ 205	\$ (25)
Investing cash flows	-	90	-	122
Financing cash flows	-	(109)	-	(527)
Total cash inflow	-	(3,534)	205	(430)

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

	Nine months ended	Nine months ended
	September 30,	September 30,
	2012	2011
Trade receivables	\$ 6,695	\$ (17,033)
Inventories	(494)	1,190
Prepays and deposits	1,514	(795)
Notes receivable	1,481	-
Accounts payable and accrued liabilities	(8,855)	8,866
Deferred revenue	(2,113)	(2,888)
Notes payable	1,476	-
Income taxes payable	(4,010)	2,254
	(4,306)	(8,406)

#### 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 activation 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.



## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

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

<b>Three months ended September 30, 2011</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 17,425	\$ 18,813	\$ 26,437	\$ -	\$ 62,675
Depreciation and amortization	2,802	2,138	175	99	5,214
Net interest (recovery) expense	(101)	(341)	3	896	457
Finance fees	-	-	-	31	31
Earnings before income tax and non- controlling interests	7,413	5,551	1,724	(2,043)	12,645
Income tax expense (recovery)	1,689	2,670	360	104	4,823
Capital expenditures <sup>(1)</sup>	7,005	(2,507)	35	464	4,997

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

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

<b>Nine months ended September 30, 2011</b>	<b>Canadian Operations</b>	<b>U.S. Operations</b>	<b>Product Sales</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 38,838	\$ 41,977	\$ 45,359	\$ -	\$ 126,174
Depreciation and amortization	7,660	5,299	268	258	13,485
Net interest expense	565	28	3	549	1,145
Finance fees	-	-	-	31	31
Earnings before income tax and non-controlling interests	12,829	10,468	3,301	(5,717)	20,881
Income tax expense (recovery)	2,263	4,537	536	550	7,886
Capital expenditures <sup>(1)</sup>	21,470	33,251	117	629	55,467
Goodwill	7,675	9,602	-	-	17,277
<b>Total assets</b>	<b>84,678</b>	<b>106,082</b>	<b>8,061</b>	<b>5,560</b>	<b>204,381</b>

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

Revenue from continuing operations by geography	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Canada	\$ 32,826	\$ 33,081	\$ 100,684	\$ 71,969
U.S.	18,268	29,594	61,015	54,205
<b>Total</b>	<b>51,094</b>	<b>62,675</b>	<b>161,699</b>	<b>126,174</b>

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

	As at September 30, 2012			As at September 30, 2011		
	Capital assets & goodwill	Other assets	Total assets	Capital assets & goodwill	Other assets	Total assets
Canada	\$ 79,219	\$ 38,235	\$ 117,454	\$ 63,168	\$ 35,132	\$ 98,300
U.S.	98,576	20,297	118,873	69,468	36,613	106,081
Total	177,795	58,532	236,327	132,636	71,745	204,381

During the nine months ended September 30, 2012, the Canadian Operations segment had intercompany sales of \$9.2 million (2011 - \$6.0 million), not included in the revenue figures above, to the U.S. Operations segment. Intercompany sales consist of in-house manufactured capital assets which are sold to the U.S. Operations segment. These transactions are eliminated upon consolidation.

## 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, an operating line of credit, long-term debt, note payable and finance leases.

	As at September 30, 2012	As at December 31, 2011
Operating line of credit	\$ 3,515	\$ 5,570
Long-term debt	53,500	23,500
Note payable	1,476	-
Finance leases	5,490	7,665
Total debt	63,981	36,735
Total equity	135,105	133,273
Total capitalization	199,086	170,008

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.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

The Company also manages capital to ensure compliance with the margin requirements and financial covenants on its credit facilities. The Company monitors compliance with these requirements on an ongoing basis and forecasts regularly to assess how certain activities may impact compliance in future periods. As at September 30, 2012, the Company is in compliance with respect to these covenants. The Company also monitors non-GAAP measures, specifically EBITDA, which is calculated as net income/(loss) plus interest, taxes, depreciation and amortization, loss on foreign exchange, loss on disposal of property, plant and equipment less gain on foreign exchange, and gain on disposal of property, plant and equipment. The Company's management uses EBITDA to evaluate the financial performance of each division.

On December 20, 2011, the Company obtained approval to make a normal course issuer bid (the "Bid") to purchase, from time to time, as it considers advisable, up to 1,862,319 of its issued and outstanding common shares on the open market. Common shares acquired by the Company under the Bid will be cancelled. As at September 30, 2012, the Company had not purchased, or engaged an agent to begin to purchase, any of its issued and outstanding common shares under the Bid.

## 19 Financial instruments

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

	As at September 30, 2012		As at December 31, 2011	
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
<b>Loans and receivables:</b>				
Trade receivables	42,771	42,771	49,466	49,466
Notes receivable	1,554	1,554	2,035	2,035
<b>Financial liabilities:</b>				
Bank indebtedness	3,515	3,515	5,570	5,570
Accounts payable and accrued liabilities	21,957	21,957	30,812	30,812
Long-term debt	53,500	53,500	23,500	23,500
Note payable	1,476	1,476	-	-
Obligations under finance lease	5,490	5,490	7,665	7,665

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### Credit Risk

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

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

	As at September 30, 2012	As at December 31, 2011
Under 30 days	\$ 26,039	\$ 32,235
31-60 days	9,511	12,520
61-90 days	3,296	3,000
Over 90 days	3,925	1,711
Trade receivables	42,771	49,466

As at September 30, 2012, the Company had an allowance for doubtful accounts of \$0.4 million (2011 - \$0.5 million) with respect to potentially uncollectible accounts. The Company does not have a significant exposure to any individual customer or counter party, except one customer that accounted for approximately 10% of revenue from continuing operations for the nine months ended September 30, 2012 (2011 – nil). No other customer accounted for more than 10% of revenue from continuing operations for the nine months ended September 30, 2012.

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 \$0.4 million of trade receivables above for which a reserve balance has been taken, are past due or impaired.

#### Liquidity Risk

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

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

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

	2013	2014	2015	2016	2017
	Less than 1 year	1 – 2 years	2 - 3 years	3 – 4 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 21,957	\$ -	\$ -	\$ -	\$ -
Bank indebtedness <sup>(1)</sup>	3,769	-	-	-	-
Long-term debt <sup>(1)</sup>	2,023	2,023	55,152	-	-
Obligations under finance lease <sup>(1)</sup>	3,237	2,327	313	20	-
Note payable <sup>(1)</sup>	492	1,040	-	-	-
Total	31,478	5,390	55,465	20	-

(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 USD. The Company is also exposed to foreign exchange risk as certain balances within working capital may fluctuate due to changing Canada/U.S. exchange rates. The Company does not utilize derivative financial instruments with respect to foreign exchange. For the nine months ended September 30, 2012, 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 \$21 thousand (2011 - \$106 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 nine months ended September 30, 2012, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately \$380 thousand higher (2011 - \$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 nine months ended September 30, 2012.

## Strad Energy Services Ltd.

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

(Unaudited)

(in thousands of Canadian dollars)

#### 20 Related party transactions

- i) Compensation of key management

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Salaries and short-term employee benefits	\$ 431	\$ 362	\$ 1,013	\$ 1,106
Share-based payments	191	136	488	408
	622	498	1,501	1,514

- ii) Loans to key management

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

	As at September 30, 2012	As at December 31, 2011
Opening balance	\$ 1,157	\$ 1,275
Repayment of share purchase loans in 2011	-	(118)
Repayment of share purchase loans in 2012	(101)	-
Share purchase loans issued in 2012	579	-
	1,635	1,157

Certain key management personnel and a director have loans outstanding totaling \$1.6 million from the Company. Proceeds of the loans were used to purchase common shares in the Company. The loan balances are non-interest bearing for the first three years the loan balances are outstanding.

The opening balance of share purchase loans for the year-ended December 31, 2011, pertain to share purchase loans issued during the year-ended December 31, 2009, and 2010.

#### 21 Comparative figures

Certain information provided for prior periods has been reclassified to conform to the presentation adopted in 2011. The comparative Statement of Income distinguishes between discontinued operations and continuing operations to conform to the presentation required under IFRS 5 Non-current assets held for sale and discontinued operations (see note 15). Operating segments for the previous period have been reclassified to conform to the change in operating segments disclosed in the 2011 annual financial statements. Finance fees for the previous period have been reclassified to conform to the change in presentation in these September 30, 2012 financial statements.

## **Strad Energy Services Ltd.**

### Notes to the Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2012 and 2011

**(Unaudited)**

---

(in thousands of Canadian dollars)

#### **22 Subsequent event**

On October 1, 2012, the Company acquired the remaining 10% of the Class B issued shares of one of its subsidiaries for cash purchase consideration of \$1.2M.