

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**CERF
INCORPORATED**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

**NOTICE OF NO AUDITOR REVIEW OF INTERIM
FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2014.

CERF INCORPORATED

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

	September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash	3,129	557
Accounts receivable	14,783	8,433
Inventory	2,191	1,561
Prepaid expenses and deposits	1,074	397
	21,177	10,948
Non-current assets		
Loan receivable	60	238
Property and equipment (note 5)	81,307	36,890
Intangibles and goodwill (note 6)	38,874	10,714
	120,241	47,842
Total assets	141,418	58,790
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	7,667	5,339
Dividends payable	2,130	963
Income taxes payable	5	559
Current portion of long-term debt (note 7)	750	1,502
Current portion of finance leases	325	314
	10,877	8,677
Non-current liabilities:		
Long-term debt (note 7)	29,750	14,801
Obligation under finance leases	3,909	4,106
Deferred income taxes	476	2,115
	34,135	21,022
Total liabilities	45,012	29,699
Shareholders' equity		
Share capital (note 8)	102,073	32,894
Warrants (note 10)	—	835
Share purchase loans receivable	(93)	(148)
Contributed surplus	774	744
Deficit	(6,348)	(5,234)
	96,406	29,091
Total liabilities and shareholders' equity	141,418	58,790

See accompanying notes to the Condensed Consolidated Interim Financial Statements

CERF INCORPORATED

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

	Three months ended		Nine months ended	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Revenues	15,006	12,697	37,446	34,235
Direct expenses				
Direct operating costs	6,888	7,369	17,515	19,395
Cost of sales of equipment, fuel and parts	1,346	614	3,763	1,977
Depreciation of equipment	2,188	1,349	5,133	4,055
	10,422	9,332	26,441	25,427
Gross margin	4,584	3,365	11,035	8,808
Operating expenses				
General and administrative (note 11)	1,753	1,121	4,561	3,714
Depreciation of other property and equipment	34	30	107	83
Amortization of intangible assets	235	251	721	753
Business acquisition expenses	175	—	209	10
	2,197	1,402	5,598	4,560
Other expenses				
Finance costs (note 12)	620	396	1,275	1,266
	2,817	1,798	6,873	5,826
Income before income taxes	1,767	1,567	4,162	2,982
Income taxes				
Current	232	137	684	677
Deferred	242	280	440	180
	474	417	1,124	857
Net income and comprehensive income for the period	1,293	1,150	3,038	2,125
Net income per share				
Basic	0.05	0.08	0.16	0.17
Diluted	0.05	0.08	0.16	0.17
Weighted average number of shares outstanding				
Basic	24,851,007	14,829,035	19,222,808	12,735,310
Diluted	25,313,353	14,829,072	19,448,808	12,735,632

See accompanying notes to the Condensed Consolidated Interim Financial Statements

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

	Nine months ended	
	Sept. 30, 2014	Sept. 30, 2013
Cash provided by (used in):		
Operating		
Net income and comprehensive income	3,038	2,125
Depreciation of property and equipment	5,401	4,444
Gain on disposal of property and equipment	(161)	(306)
Amortization of intangible assets	721	753
Stock based compensation	60	249
Deferred income taxes	440	180
Cash flow from operating activities before changes in non-cash working capital	9,499	7,445
Changes in non-cash working capital (note 13)	(2,430)	2,357
Cash flow from operating activities	7,069	9,802
Investing		
Change in non-cash working capital related to investing activities (note 13)	944	(2,527)
Purchase of property and equipment	(10,934)	(6,203)
Proceeds from sale of property and equipment	1,734	1,349
Loan receivable	165	156
Business acquisitions (note 4)	(2,026)	—
Cash flow from investing activities	(10,117)	(7,225)
Financing		
Bank indebtedness	—	(1,569)
Proceeds from public offering, net of issue costs	14,117	10,668
Dividends	(2,986)	(2,099)
Proceeds from long-term debt	36,600	2,842
Repayment of long-term debt	(41,880)	(12,063)
Repayment of obligations under finance leases	(231)	(356)
Cash flow from finance activities	5,620	(2,577)
Net change in cash in the period	2,572	—
Cash, beginning of year	557	—
Cash, end of period	3,129	—

See accompanying notes to the Condensed Consolidated Interim Financial Statements

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CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

	Share Capital	Warrants	Share purchase loans	Contributed surplus	Deficit	Total
Balance - December 31, 2012	22,897	—	(203)	387	(5,037)	18,044
Stock based compensation	—	—	—	249	—	249
Repayment of share purchase loan received	—	—	55	—	—	55
Proceeds of public offering	11,013	835	—	—	—	11,848
Share issue costs net of deferred tax benefit of \$310	(1,016)	—	—	88	—	(928)
Comprehensive income for the nine months ended September 30, 2013	—	—	—	—	2,125	2,125
Dividends declared - net of interest on share purchase loans of \$1	—	—	—	—	(2,363)	(2,363)
Balance - September 30, 2013	32,894	835	(148)	724	(5,275)	29,030
Stock based compensation	—	—	—	20	—	20
Comprehensive income for the three months ended December 31, 2013	—	—	—	—	1,004	1,004
Dividends declared - net of interest on share purchase loans	—	—	—	—	(963)	(963)
Balance - December 31, 2013	32,894	835	(148)	744	(5,234)	29,091
Shares issued in consideration for business acquisitions (note 4)	54,114	—	—	—	—	54,114
Exercise of options and warrants	15,478	(835)	—	(30)	—	14,613
Share issue costs, net of deferred tax benefit of \$137	(413)	—	—	—	—	(413)
Stock based compensation	—	—	—	60	—	60
Repayment of share purchase loan received	—	—	55	—	—	55
Comprehensive income for the nine months ended September 30, 2014	—	—	—	—	3,038	3,038
Dividends	—	—	—	—	(4,152)	(4,152)
Balance - September 30, 2014	102,073	—	(93)	774	(6,348)	96,406

See accompanying notes to the Condensed Consolidated Interim Financial Statements

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

1. CORPORATE INFORMATION:

CERF Incorporated (“CERF” or the “Company”) was formed under the laws of Alberta as a corporation on August 10, 2011. Prior to October 1, 2011, operations were carried on as Canadian Equipment Rental Fund Limited Partnership (the “Partnership”), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005.

The Company is engaged in industrial equipment rentals, sales and service, oilfield equipment rentals and sales, and waste management services. CERF Incorporated is listed on the TSX Venture Exchange under the symbol CFL.

2. BASIS OF PREPARATION:

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full financial disclosure. The disclosures provided below are incremental to those included in the annual financial statements and certain disclosures, which are normally required to be included in the notes to annual financial statements, have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2013.

These consolidated financial statements were approved by the Board of Directors on November 13, 2014 and are presented in Canadian dollars, which is the Company’s functional currency.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS:

Effective January 1, 2014, the Company adopted the following accounting standards or revisions thereto:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Levies (IFRIC 21). The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs.

On adoption, these standards had no impact on the recognition or measurement of the balances recorded in the Company’s financial statements.

The following accounting standards or revisions have not yet been adopted. The extent of the impact of adoption of these standards or amendments has not yet been determined.

- *Revenue from Contracts with Customers* (IFRS 15) – The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017.
- *Business combination accounting for interests in a joint operation* (Amendments to IFRS 11) – The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)* – The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016.

4. BUSINESS ACQUISITIONS:

a) Empire Tool Inc.

On May 28, 2014, the Company completed the acquisition of all, or substantially all, of the assets used in the business of Empire Tool Inc. (“Empire”). Empire’s business involved the rental of heavy weight drill pipe to the oil and natural gas industry in Western Canada.

The Company paid a purchase price of \$9,182, consisting of \$6,100 in cash and 1,000,668 CERF shares valued at \$3,082, as consideration for the assets acquired. The cash was provided from existing credit facilities. The acquisition is accounted for as a business combination.

The purchase price was initially allocated to the assets acquired based on their estimated fair values as follows:

Property and equipment	5,140
Intangible assets	600
Goodwill	3,442
Fair value of net assets acquired	9,182

Intangible assets acquired consist of customer relationships, service contracts, trademarks and trade names. The intangible assets will be amortized over the expected economic life of the assets or the remaining term of the contracts in accordance with CERF’s amortization policy. Goodwill is the difference between the purchase price and the identified tangible and intangible assets acquired. Management attributes goodwill to the reputation that Empire established in the course of its history which could not be identified with other tangible or intangible assets.

The Company has not made a final determination of values attributable to Empire’s assets due to the short time period between closing and these financial statements, therefore the initial allocation may change when the final determination of values is made.

CERF acquired rental assets and the business of Empire and has integrated these into the operations of TRAC Energy Services Ltd., therefore it is not possible to determine the net income contribution of Empire as a separate entity, since acquisition. Revenue generated on the assets acquired from Empire amounted to \$991 during the three months and \$1,083 during the nine months ended September 30, 2014

Management expects that 75% of the cost of the intangible assets and goodwill purchased will be deductible for income tax purposes.

Acquisition costs of \$34 were charged to profit and loss in relation to this acquisition.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

b) Winalta Inc.

On August 27, 2014, pursuant to a plan of arrangement (“the Arrangement”), CERF acquired all of the issued and outstanding common shares of Winalta Inc. (“Winalta”). The former holders of Winalta Shares received 0.3352 of a CERF common share for each Winalta common share held. Under the Arrangement, CERF issued approximately 14,456,717 CERF common shares and assumed \$19,300 of Winalta net debt, inclusive of transaction costs. Concurrent with the Arrangement, CERF entered into new syndicated credit facilities in the amount of \$65,000 (see note 7).

The purchase price \$70,551, being comprised of \$51,032 based on the 14,456,717 CERF common shares issued and a closing price of \$3.53 on the closing date, plus debt assumed of \$19,519, was initially allocated to the assets acquired based on their estimated fair values as follows:

Working capital	8,454
Property and equipment	35,317
Deferred tax assets	1,941
Intangible assets	2,500
Goodwill	22,339
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Fair value of net assets acquired	70,551

Intangible assets acquired consist of customer relationships, contracts, and trade names. The intangible assets will be amortized over the expected economic life of the assets or the remaining term of the contracts in accordance with CERF’s amortization policy. Goodwill is the difference between the purchase price and the identified tangible and intangible assets acquired. Management attributes goodwill to the reputation that Winalta has established in the course of its history which could not be identified with other tangible or intangible assets.

The Company has not made a final determination of values attributable to Winalta’s assets due to the short time period between closing and these financial statements, therefore the initial allocation may change when the final determination of values is made.

Revenue attributable to Winalta’s operations since acquisition and included in income for the period was \$2,855 and net income was \$548. Had the acquisition taken place on January 1, 2014 Winalta would have contributed revenue of approximately \$21,700 and net income of approximately \$2,300 during the period ended September 30, 2014.

Management expects that the cost of the intangible assets and goodwill purchased will not be deductible for income tax purposes.

Acquisition costs of \$175 were charged to profit and loss in relation to this acquisition.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

5. PROPERTY AND EQUIPMENT:

Cost	Buildings	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2012	4,801	32,074	12,309	768	224	50,176
Additions	—	8,324	1,284	122	26	9,756
Business acquisitions	—	—	—	—	—	—
Disposals	—	(3,129)	(989)	(136)	—	(4,254)
At December 31, 2013	4,801	37,269	12,604	754	250	55,678
Additions	—	9,891	681	346	16	10,934
Business acquisitions	—	40,185	85	187	—	40,457
Disposals	—	(2,944)	(413)	(105)	—	(3,462)
At September 30, 2014	4,801	84,401	12,957	1,182	266	103,607

Accumulated depreciation	Buildings	Rental equipment	Automotive and other equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2012	937	9,431	4,309	351	107	15,135
Charge for year	274	3,706	1,921	102	20	6,023
Elimination on disposal	—	(1,681)	(578)	(111)	—	(2,370)
At December 31, 2013	1,211	11,456	5,652	342	127	18,788
Charge for the period	206	3,843	565	771	16	5,401
Elimination on disposal	—	(1,553)	(300)	(36)	—	(1,889)
At September 30, 2014	1,417	13,746	5,917	1,077	143	22,300

Net Book Value	Buildings	Rental equipment	Automotive & other equipment	Office furniture & equipment	Leasehold improvements	Total
At September 30, 2014	3,384	70,655	7,040	105	123	81,307
At December 31, 2013	3,590	25,813	6,952	412	123	36,890

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

6. INTANGIBLES AND GOODWILL:

Cost	Goodwill	Long term Contracts	Customer Relation-ships	Non- compete agreement	Brand names & other	Total
At December 31, 2012	7,803	1,430	2,124	253	109	11,719
Amortization	—	(432)	(488)	(56)	(29)	(1,005)
At December 31, 2013	7,803	998	1,636	197	80	10,714
Business acquisitions	25,781	400	2,500	200	—	28,881
Amortization	—	(320)	(339)	(41)	(21)	(721)
At September 30, 2014	33,584	1,078	3,797	356	59	38,874

7. CREDIT FACILITIES:

	Effective interest rate	Final maturity	Facility maximum	Outstanding as at September 30, 2014	Outstanding as at December 31, 2013
Revolving operating facility	4.25%	2017	55,000	25,500	—
Revolving capital expenditure facility	4.25%	2017	10,000	5,000	—
Revolving operating loan		2015	—	—	3,911
Revolving rental equipment loans		2015	—	—	7,952
Revolving Capex term loans		2015	—	—	1,871
Non-revolving term loans		2015	—	—	2,569
				30,500	16,303
Current portion				(750)	(1,502)
Long term debt				29,750	14,801

On August 27, 2014, the Company entered into a syndicated credit facility with its banker acting as the lead syndication agent. The credit facilities have been provided on a committed basis for a period of three years from August 27, 2014 and consist of:

- a) A revolving operating facility with a maximum availability of up to \$55,000 not to exceed 75% of accounts receivable, plus 50% of inventories held for resale, plus 60% of the net book value of rental equipment, less priority payables. No payments of principal are required under the operating facility as long as the loan does not exceed the margined assets. Based on the September 30, 2014 margined assets \$54,000 was available to draw under the revolving operating facility.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

- b) A revolving Capex Facility with a maximum availability of up to \$10,000. This facility may be used to finance 75% of the cost of non-rental equipment. Each draw against the Capex facility is repayable in 60 equal monthly payments of principal plus interest. However no principal payments are required during the fiscal year in which a term accommodation is advanced.

The credit facilities are secured by a General Security Agreement creating a first charge security interest over all of the Company's, including its subsidiaries, present and after acquired real property.

Interest payable on all loans drawn under the credit facilities will range from bank prime rate plus 1.00% to bank prime rate plus 1.50% depending on the Company's debt to EBITDA ratio. The Credit facilities may also be financed through Bankers' Acceptances at the Company's option.

Covenants required from August 27, 2014 onward are as follows:

	Requirement	Actual at September 30, 2014
Debt to EBITDA*	not to exceed 3.00 times EBITDA	1.5 times EBITDA
Interest Coverage Ratio**	not less than 3.50 times adjusted cash flow	6.3 times adjusted cash flow

* EBITDA is a defined bank term and includes EBITDA of the trailing twelve months plus the pre-acquisition EBITDA of business acquisitions in the trailing twelve month period.

** Interest Coverage ratio is calculated as finance costs for the trailing twelve months (including the trailing twelve months of companies acquired) divided into the trailing twelve month adjusted cash flow which is defined as EBITDA less taxes paid and dividends paid in the trailing twelve months.

8. **SHARE CAPITAL:**

Common shares issued and fully paid:	Number of shares	\$
Balance, December 31, 2013	16,059,356	32,894
Issuance of common shares on exercise of employee options	141,800	482
Issuance of common shares on exercise of agent options	245,006	662
Issuance of common shares on exercise of warrants	4,276,167	14,282
Issuance of common shares under dividend reinvestment program	16,237	52
Issued as consideration in a business acquisitions (Note 4)	15,457,435	54,114
Share issue costs, net of deferred tax benefit of \$137	—	(413)
Balance, September 30, 2014	36,196,001	102,073

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

9. STOCK OPTIONS:

Changes in outstanding and exercisable **employee options** are as follows:

	Number of options	Vested	Weighted Average Exercise price	Remaining contractual life in years
Options as at December 31, 2013	1,039,300	385,000	3.09	4.40
Options exercised	(141,800)	(141,800)	3.03	—
Options expired	(63,000)	(63,000)	2.95	—
Options vested	—	241,100	2.90	—
Options as at September 30, 2014	834,500	421,300	2.90	3.65

Changes in outstanding and exercisable **agent options** are as follows:

	Number of options	Exercise price	Remaining contractual life in years
Options as at December 31, 2013	295,502	2.70	1.07
Options exercised	(245,006)	2.70	—
Options as at September 30, 2014	50,496	2.70	0.32

On October 20, 2014 the Company granted 1,053,000 stock options to employees, officers and directors to purchase common shares at \$3.17. The stock options were granted under the Company's rolling stock option plan, vest over a three year period beginning October 20, 2015 and expire on October 20, 2019.

10. WARRANTS:

Changes in outstanding and exercisable **warrants** are as follows:

	Number of Warrants	Exercise price	Remaining contractual life in years
Warrants as at December 31, 2013	4,388,260	3.15	0.75
Warrants exercised	(4,276,167)	3.15	—
Warrants expired	(112,093)	3.15	—
Options as at September 30, 2014	—	—	—

The Company had the right to accelerate the expiry of the warrants after July 25, 2014, if the trading price of CERF shares has closed above \$3.55 for 15 consecutive trading days. On August 21, 2014 the Company exercised its right and accelerated the expiry date of the warrants to September 30, 2014.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(Unaudited)
IN THOUSANDS OF CANADIAN DOLLARS

11. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses are comprised of the following:

	For the three months ended		For the nine months ended	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Administrative salaries and office costs	1,022	828	3,067	2,330
Stock based compensation	19	21	60	249
Professional and consulting fees	172	157	385	406
Advertising, promotion, and investor relations	219	98	457	354
Computer and technology related expenses	90	21	208	97
Bad debt (recovery) expenses	231	(4)	384	278
	1,753	1,121	4,561	3,714

12. FINANCE COSTS:

Finance costs are comprised of the following:

	For the three months ended		For the nine months ended	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Bank charges and interest	292	107	457	243
Bank syndication costs	127	—	127	—
Interest on long term debt	87	177	358	686
Interest on finance leases	125	120	356	363
Interest on loan receivable	(11)	(8)	(23)	(26)
	620	396	1,275	1,266

13. CHANGES IN NON-CASH WORKING CAPITAL:

Changes in non-cash working capital related to operating activities

	For the three months ended		For the nine months ended	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Accounts receivable	(1,329)	(1,202)	(1,258)	(1,389)
Inventory	70	180	(630)	(101)
Prepaid expenses	(3)	(2)	(129)	(338)
Accounts payable and accrued liabilities	1,580	1,774	1,085	634
Income taxes payable	26	(180)	(554)	1,024
	344	570	(1,486)	(170)

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

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Less: change in accounts payable related				
to investing activities	(787)	895	(944)	2,527
Change in non-cash working capital	(443)	1,465	(2,430)	2,357
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Supplementary information:				
Interest paid	620	396	1,275	1,287
Taxes paid (recovered)	206	10	1,238	(347)
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Changes in non-cash working capital related to investing activities				
	For the three months		For the nine months ended	
	Sept. 30,	ended	Sept. 30,	Sept. 30,
	2014	Sept. 30,	2014	2013
		2013		
Accounts payable related to acquisitions	—	—	—	(1,914)
Accounts payable related to the purchase of PP&E	787	(895)	944	(613)
	787	(895)	944	(2,527)
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14. OPERATING SEGMENTS:

The Company structures its operations into two primary divisions; Energy Services and Industrials. The Energy Services Division is comprised of one reporting segment, the Oilfield Rentals Segment (“Oilfield Rentals”). Oilfield Rentals is engaged in the rental of oilfield surface wellsite equipment, downhole equipment and wellsite accommodations.

Industrials is comprised of two reportable segments: (i) industrial equipment rentals, service and sales (“Industrial Rentals”) and (iii) waste management services (“Waste Management”),

The determination of divisions and segments of the Company is based on the way that management organizes the Company’s businesses for making operating decisions and assessing performance.

Information regarding results of the three operating and reportable segments is included below. Performance is measured based on segment profit as included in internal management reports. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit is calculated as revenue less cash operating expenses, cash administrative expenses, and depreciation expense.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

(Unaudited)

IN THOUSANDS OF CANADIAN DOLLARS

	Three months ended September 30, 2014				
	Industrial Rentals	Oilfield Rentals	Waste Management	Corporate	Total
Total segment revenue	5,086	6,045	3,875		15,006
Segment profit (loss)	593	2,148	692	(811)	2,622
Depreciation of property and equipment	983	938	297	4	2,222
Amortization of intangible assets	—	121	114	—	235
Finance costs	255	173	67	125	620
Income taxes (recovery)	(7)	100	6	375	474
Additions to property and equipment	2,147	1,821	85	3	4,056

	Three months ended September 30, 2013					
	Industrial Rentals	Oilfield Rentals	Equipment Rental Segment as presented in 2013	Waste Management	Corporate	Total
Total segment revenue	4,312	2,116	6,428	6,269	—	12,697
Segment profit (loss)	1,495	1,641	3,136	686	(1,608)	2,214
Depreciation of property and equipment	657	273	930	447	2	1,379
Amortization of intangible assets	—	121	121	130	—	251
Finance costs	220	8	228	28	140	396
Income taxes (recovery)	155	133	288	30	99	417
Additions to property and equipment	1,136	768	1,904	62	7	1,973

	Nine months ended September 30, 2014				
	Industrial Rentals	Oilfield Rentals	Waste Management	Corporate	Total
Total segment revenue	16,852	9,751	10,843	—	37,446
Segment profit (loss)	3,426	3,453	1,251	(1,972)	6,158
Depreciation of property and equipment	2,655	1,528	1,048	9	5,240
Amortization of intangible assets	—	362	359	—	721
Finance costs	687	264	141	183	1,275
Income taxes (recovery)	505	230	(24)	413	1,031
Additions to property and equipment	7,022	3,406	493	13	10,934

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Nine months ended September 30, 2013						
	Equipment Rental		Segment as presented in		Waste	Total
	Industrial Rentals	Oilfield Rentals	2013	Management	Corporate	
Total segment revenue	14,313	6,266	20,579	13,656	—	34,235
Segment profit (loss)	3,587	2,948	6,535	(76)	(1,458)	5,001
Depreciation of property and equipment	2,089	809	2,898	1,233	7	4,138
Amortization of intangible assets	—	362	362	391	—	753
Finance costs	661	26	687	82	497	1,266
Income taxes (recovery)	570	417	987	(235)	105	857
Additions to property and equipment	3,317	2,237	5,554	638	11	6,203

Goodwill	Industrial Rentals	Oilfield Rentals	Waste Management	Corporate	Total
As at September 30, 2014	—	32,201	1,383	—	33,584
At December 31, 2013	—	6,420	1,383	—	7,803

Total assets and liabilities of the reportable segments are as follows:

As at September 30, 2014	Industrial Rentals	Oilfield Rentals	Waste Management	Corporate	Total
Total assets	25,944	102,223	10,616	2,635	141,418
Total liabilities	7,052	4,155	927	32,878	45,012

	Equipment Rental		Segment as presented in		Waste	Total
As at December 31, 2013	Industrial Rentals	Oilfield Rentals	2013	Management	Corporate	
Total assets	23,408	23,001	46,408	11,778	604	58,790
Total liabilities	13,437	5,757	19,194	3,199	7,306	29,699

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited) IN THOUSANDS OF CANADIAN DOLLARS

A reconciliation of segment profit to income before taxes is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Segment profit	2,622	2,214	6,158	5,001
Deduct:				
Finance costs	620	396	1,275	1,266
Amortization of intangibles	235	251	721	753
Income (loss) before taxes	1,767	1,567	3,808	2,982

15. SEASONALITY OF OPERATIONS

CERF operates in industries that are seasonal by nature. The seasonality experienced by Waste Management is opposite to the seasonality of Industrial Rentals and Oilfield Rentals. Although Waste Management is much smaller segment than the rental segments, this seasonality helps to smooth CERF's cash flow levels throughout the four fiscal quarters.

The Industrial Rentals rents equipment in all seasons, but sees an increase in rental revenues in Q4 and Q1 when the construction industry demands the same equipment as in the summer as well as heaters, lighting units and other specialized cold weather equipment in order to keep working through the colder months of the year.

Oilfield Rentals operates in the Western Canadian Sedimentary Basin (WCSB), where the activity levels in the oilfield services industry are subject to the ability to move heavy equipment in the oil and natural gas fields. This mobility is dependent on weather conditions. As warm weather returns in the spring, the winter's frost coming up out of the ground renders many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out ("spring breakup"). In addition, many exploration and production areas in Northern Canada are accessible only in the winter months when the ground is frozen hard enough to support heavy equipment ("winter freeze up"). The timing of winter freeze up and spring breakup affects the ability to move equipment in and out of these areas, which directly affects the activities of the exploration and development companies serviced by this segment.

Whereas cold weather boosts activity in the rental segments, it is the warmer weather of Q2 and Q3 that is most advantageous to Waste Management. During the winter months, the volume of waste coming through operated facilities is curtailed, and waste collection operations slow down as construction activity (both commercial and residential) taper off. In the spring, municipalities, businesses and residents begin cleanup activities, and construction activities ramp up, which boosts collection demands, and increases the volume of waste being brought into the landfill facilities. Activities related to non-hazardous waste and impacted soil projects are highest during the summer months, as the reclamation projects that generate this type of waste can only be done when the ground is not frozen. In addition, construction of new landfill cells can only happen between, when appropriate conditions are at hand for the placement of cell liners.
