

Condensed Consolidated Interim Financial Statements of



(Formerly CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

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

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Condensed Consolidated Interim Statements of Financial Position

Unaudited; In Canadian dollars

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash	—	3,206,281
Accounts receivable	5,511,644	5,900,994
Inventory	1,243,862	848,403
Income taxes recoverable	433,608	—
Prepaid expenses and deposits	276,694	216,326
	7,465,808	10,172,004
Non-current assets		
Loan receivable	509,827	665,674
Property and equipment (note 4)	24,668,550	22,269,785
Intangibles and goodwill (note 5)	3,320,534	3,599,104
	28,498,911	26,534,563
Total assets	35,964,719	36,706,567
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	3,118,767	—
Accounts payable and accrued liabilities	3,597,558	3,755,002
Dividends payable	578,602	579,915
Income taxes payable	—	65,463
Current portion of long-term debt (note 6)	2,012,034	4,151,093
Current portion of finance leases	356,628	593,750
	9,663,589	9,145,223
Non-current liabilities:		
Long-term debt (note 6)	8,493,282	7,151,519
Obligation under finance leases	4,661,600	4,874,181
Deferred income taxes	320,252	623,822
	13,475,134	12,649,522
Shareholders' equity		
Share capital (Note 7)	17,649,048	17,701,144
Share purchase loans receivable	(202,836)	(309,532)
Contributed surplus	386,401	382,615
Deficit	(5,006,617)	(2,862,405)
	12,825,996	14,911,822
Total liabilities and shareholders' equity	35,964,719	36,706,567

See accompanying notes to the condensed consolidated interim financial statements

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Condensed Consolidated Interim Statements of Comprehensive Income Unaudited; In Canadian dollars

	Three months ended Sept 30		Nine months ended Sept 30	
	2012	2011	2012	2011
Revenues				
Equipment rental	2,847,724	2,509,475	8,631,989	8,005,509
Waste management	3,865,820	3,349,513	10,293,227	5,854,701
Sales of equipment, fuel and parts	719,965	865,355	2,689,116	2,978,294
Service and other	325,947	285,962	903,595	849,714
	7,759,456	7,010,305	22,517,927	17,688,218
Direct expenses				
Direct operating costs	4,818,293	3,705,944	13,641,633	8,581,002
Cost of sales of equipment, fuel and parts	522,485	666,652	2,052,518	2,342,068
Depreciation of equipment	1,178,193	1,092,193	3,120,037	2,613,046
	6,518,971	5,464,789	18,814,188	13,536,116
Gross margin	1,240,485	1,545,516	3,703,739	4,152,102
Operating expenses				
General and administrative	1,025,637	676,575	2,238,984	1,468,675
Depreciation of other property and equipment	96,400	85,739	275,929	252,536
Amortization of intangible assets	130,517	103,683	402,093	172,016
Impairment of goodwill (note 5)	203,477	—	203,477	—
Business acquisition expenses	173,063	46,805	191,026	174,187
	1,629,094	912,802	3,311,509	2,067,414
Other expenses				
Finance costs (note 10)	296,247	267,636	835,363	703,629
(Loss) Income before income taxes	(684,856)	365,078	(443,133)	1,381,059
Income taxes (recovery)				
Current	40,398	82,663	267,588	589,599
Deferred	(100,064)	(105,173)	(303,570)	(366,406)
	(59,666)	(22,510)	(35,982)	223,193
Net (loss) income and comprehensive (loss) income for the period	(625,190)	387,588	(407,151)	1,157,866
Net (loss) income per share (note 9)				
Basic	(0.06)	0.04	(0.04)	0.13
Diluted	(0.06)	0.04	(0.04)	0.13

See accompanying notes to the condensed consolidated interim financial statements

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)Condensed Consolidated Interim Statements of Cash Flow
Unaudited; In Canadian dollars

	Nine months ended September 30	
	2012	2011
Cash provided by (used in):		
Operating		
Net (loss) income and comprehensive (loss) income	(407,151)	1,157,866
Depreciation of property and equipment	3,395,966	2,865,582
Amortization of intangible assets	402,093	172,016
Impairment of goodwill	203,477	—
Finance costs	835,363	703,629
Stock based compensation	3,786	6,205
Current income taxes	267,588	589,599
Deferred income taxes	(303,570)	(366,406)
	4,397,552	5,128,491
Changes in:		
Accounts receivable	389,350	581,670
Inventory	(395,459)	(175,938)
Prepaid expenses and deposits	(60,368)	(41,448)
Accounts payable and accrued liabilities	(157,444)	(470,717)
Interest paid	(855,867)	(669,768)
Income taxes paid	(766,659)	(7,462)
	2,551,105	4,344,828
Investing		
Purchase of property and equipment	(5,984,434)	(5,993,793)
Proceeds from sale of property and equipment	912,703	755,166
Loan receivable	155,847	77,949
Asset acquisition (note 3)	(1,050,000)	(4,177,193)
	(5,965,884)	(9,337,871)
Financing		
Bank indebtedness	3,118,767	22,457
Proceeds from partnership units issued, net of issue costs	—	22,847
Share purchase loan payments received	54,600	65,003
Dividends	(1,738,374)	(1,454,689)
Proceeds from long-term debt	5,946,296	3,278,456
Repayment of long-term debt	(6,723,088)	(2,110,579)
Proceeds of finance leases	—	339,593
Repayment of obligations under finance leases	(449,703)	(181,597)
	208,498	(18,509)
Net change in cash in the period	(3,206,281)	(5,011,552)
Cash, beginning of period	3,206,281	5,011,552
Cash, end of period	—	—

See accompanying notes to the condensed consolidated interim financial statements

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity Unaudited; In Canadian dollars

	Partnership units	Unit purchase loans	Share capital	Contributed surplus	Deficit	Total
Balance - December 31, 2010	14,765,518	(374,535)		548,802	(2,121,107)	12,818,678
Units issued	2,403,000	—		—	—	2,403,000
Unit issue costs	(11,125)	—		—	—	(11,125)
Units issued on exercise of options	44,097	—		(10,125)	—	33,972
Repayment of unit purchase loan received	—	65,003		—	—	65,003
Unit based compensation	—	—		6,205	—	6,205
Comprehensive income for the nine months ended September 30, 2011	—	—		—	1,157,866	1,157,866
Partnership distributions declared — net of interest on unit purchase loans	—	—		—	(1,659,556)	(1,659,556)
Balance — September 30 2011 prior to corporate conversion	17,201,490	(309,532)	—	544,882	(2,622,797)	14,814,043
Conversion to corporation — October 1, 2011 (Note 1)	(17,201,490)	—	17,201,490	—	—	—
Shares issued on exercise of options	—	—	499,654	(163,779)	—	335,875
Stock based compensation	—	—	—	1,512	—	1,512
Comprehensive income for the three months ended December 31, 2011	—	—	—	—	339,526	339,526
Dividends declared — net of interest on share purchase loans	—	—	—	—	(579,134)	(579,134)
Balance — December 31, 2011	—	(309,532)	17,701,144	382,615	(2,862,405)	14,911,822
Stock based compensation	—	—	—	3,786	—	3,786
Repayment of share purchase loan received	—	54,600	—	—	—	54,600
Cancellation of shares forfeited (note 7)	—	52,096	(52,096)	—	—	—
Comprehensive loss for the nine months ended September 30, 2012	—	—	—	—	(407,151)	(407,151)
Dividends declared — net of interest on share purchase loans	—	—	—	—	(1,737,061)	(1,737,061)
Balance — September 30, 2012	—	(202,836)	17,649,048	386,401	(5,006,617)	12,825,996

See accompanying notes to the condensed consolidated interim financial statements

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

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 a limited partnership (Canadian Equipment Rental Fund Limited Partnership or the “Partnership”), which had been formed under the laws of Alberta as a limited partnership on January 21, 2005.

The Board of Directors of the General Partner of the Partnership (CERF GP Corp. or the “General Partner”) received approval of the limited partnership unitholders (the “Unitholders”), at a special meeting held on September 29, 2011, to proceed with a plan of arrangement (the “Arrangement”) whereby the Partnership converted to a public corporation, CERF Incorporated (“CERF Inc.” or the “Company”), on October 1, 2011.

The Arrangement resulted in CERF Inc. carrying on the businesses previously carried on by the Partnership. Following the completion of the Arrangement, the Board of Directors of CERF Inc. are comprised of the previous members of the Board of Directors of the General Partner and the management of CERF Inc. is comprised of the previous management of the General Partner and the Partnership.

Pursuant to the Arrangement, Unitholders received one common share of CERF Inc. in exchange for each Limited Partnership Unit held on October 1, 2011. The Arrangement did not result in any benefits for, or change of control, termination or other payments being made to, any officers, directors or employees of the Partnership or any of its subsidiaries or of the General Partner. Subsequent to completion of the arrangement the Partnership and the General Partner were dissolved.

These consolidated financial statements follow the continuity of interest basis of accounting whereby CERF Inc. is considered a continuation of the Partnership. As a result, the comparative statement of financial position, statement of comprehensive income and cash flows include the Partnership’s results of operations for the period up to and including September 30, 2011. All references to shares, dividends and shareholders in the consolidated financial statements and the notes thereto pertain to common shares and common shareholders subsequent to the Arrangement and references to partnership units, distributions and unitholders pertain to the limited partnership units and unitholders prior to the Arrangement.

The Company is engaged in equipment rentals, equipment sales and service, and waste management services. CERF 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 and should be read in conjunction with the Company’s consolidated financial statements for the years ended December 31, 2011 and 2010.

There were no changes to the Company’s accounting policies from those disclosed in the Company’s consolidated financial statements for the years ended December 31, 2011 and 2010.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 27, 2012 and are presented in Canadian dollars which is the Company’s functional currency.

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

3. Asset Acquisition:

On April 20, 2012, the Company completed the acquisition of all, or substantially all, of the assets used in the business of The Bin Company Inc. ("Bin Company"). Bin Company's business involves waste collection, and disposal in and around Edmonton, Alberta.

The Company paid a cash purchase price of \$1,050,000 as consideration for the assets acquired. The cash was provided from existing credit facilities. The acquisition is accounted for as a business combination. Pro forma revenues and net income for the acquisition has not been disclosed as they are not considered material to the consolidated revenues and net income.

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

Inventory	8,000
Property and equipment	715,000
Intangible assets	197,000
Goodwill	130,000
Fair value of net assets acquired	1,050,000

Intangible assets acquired consist mainly of customer lists, service contracts, trademarks and trade names. The intangible assets are being amortized over the expected economic life of the assets or the remaining term of the contracts in accordance with CERF's amortization policy.

4. Property and equipment:

Cost	Buildings	Equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2011	4,801,142	28,254,577	626,198	217,036	33,898,953
Additions	—	5,889,602	98,996	3,836	5,992,434
Asset acquisition (note 3)	—	715,000	—	—	715,000
Disposals	—	(1,580,492)	(180)	—	(1,580,672)
At September 30, 2012	4,801,142	33,278,687	725,014	220,872	39,025,715

Accumulated depreciation	Buildings	Equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2011	663,039	10,563,361	313,316	89,452	11,629,168
Charge for period	205,763	3,344,812	57,453	12,713	3,620,741
Elimination on disposal	—	(892,744)	—	—	(892,744)
At September 30, 2012	868,802	13,015,429	370,769	102,165	14,357,165

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

4. Property and equipment (continued):

Net Book Value	Buildings	Equipment	Office furniture & equipment	Leasehold improvements	Total
At December 31, 2011	4,138,103	17,691,216	312,882	127,584	22,269,785
At September 30, 2012	3,932,340	20,263,258	354,245	118,707	24,668,550

5. Intangibles and goodwill:

Cost	Goodwill	Long term Contracts	Brand names	Non- compete agreement	Other	Total
At December 31, 2011	1,586,271	1,861,467	94,032	57,334	—	3,599,104
Asset acquisition	130,000	125,000	30,000	2,000	40,000	327,000
Amortization	—	(351,800)	(16,250)	(2,376)	(31,667)	(402,093)
Impairment	(203,477)	—	—	—	—	(203,477)
At September 30, 2012	1,512,794	1,634,667	107,782	56,958	8,333	3,320,534

During the three months ended September 30, 2012, a goodwill impairment of \$203,477 was recognized for one of the Company's CGUs, as a result of continued losses and negative cash flow generated by that CGU. The circumstances indicating the impairment in that CGU were not applicable to any other CGUs, and as such, no impairment was indicated or recorded in the other CGUs.

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

6. Long-term debt:

a) Outstanding long-term debt:

	Effective interest rate	Final maturity	September 30, 2012	December 31, 2011
Non-revolving term loans	4.25%	2014	3,701,026	5,647,418
Revolving term loans	4.25%	2016	516,325	4,436,762
Demand term loan	4.00%	2016	699,831	857,411
Revolving equipment line	4.25%	2014	5,272,208	—
Demand note	6.00%	—	300,000	300,000
Other	6.99%	2013	15,926	29,400
Financial derivatives	—	2014	—	31,621
			10,505,316	11,302,612
Current portion			(2,012,034)	(4,151,093)
Long term debt			8,493,282	7,151,519

Term loans bear interest at the bank's prime rate plus 1.25% per annum, or, at the option of the Company, bankers' acceptance rate plus a stamping fee of 2.85%, repayable in monthly installments of \$125,287 plus interest. The term loans are secured by a first claim over all current and future assets of the Company and assignment of insurance. The Company can draw up to \$2,500,000 against the revolving term loans to finance non-rental equipment. The Company can draw up to \$8,000,000 or 75% of the net book value of rental equipment against the revolving equipment line. The rental equipment line does not require principal repayments as long as the outstanding amount does not exceed 75% of the net book value of the rental equipment but is payable on demand.

The demand term loan is repayable over a 5 year term in monthly blended payments of \$20,180 principal and interest at the bank's prime rate plus 1% per annum, unless demanded sooner. It is secured by a loan receivable.

b) Financial Derivatives

On June 8, 2009, the Company entered into 5 year interest rate swap agreements. These interest rate swap agreements were settled in August 2012.

7. Share capital

Issued:	Number of shares	\$
Balance, December 31, 2011	9,665,256	17,701,144
Shares cancelled upon forfeiture of share purchase loan	(21,889)	(52,096)
Balance, September 30, 2012	9,643,367	17,649,048

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

8. Stock options:

The 16,500 options outstanding as at December 31, 2011 expired without being exercised. There are no options outstanding at September 30, 2012.

9. Per share amounts:

Net income per share has been calculated based on the weighted average number of shares outstanding during the three and nine months ended September 30, 2012 and 2011. The basic weighted average number of shares outstanding for the three and nine months ended September 30, 2012 was 9,647,642 and 9,659,342, respectively (2011 — 8,990,615). The diluted weighted average number of shares was 9,647,642 and 9,659,342 for the three and nine month periods ended September 30, 2012 (2011 — 9,150,395). The diluted weighted average reflects the dilutive effect of “in the money” options outstanding.

10. Finance costs:

Finance costs are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Bank charges and interest	51,487	35,454	152,617	74,869
Interest on long term debt	108,869	97,847	329,166	253,880
Interest on finance leases	147,306	122,678	410,384	364,581
(Gain) loss on interest rate swap	—	25,815	(20,504)	33,861
Interest earned on loan receivable	(11,415)	(14,158)	(36,300)	(23,562)
	<u>296,247</u>	<u>267,636</u>	<u>835,363</u>	<u>703,629</u>

11. Seasonality

4-Way rents certain equipment throughout the year and rents season specific equipment in the winter months. As a result, the 1st and 4th quarters have historically produced more revenues and cash flow than the summer quarters for the rental division.

MCL and Smart-Way experience peak revenue and cash flows in 2nd and 3rd quarters. The acquisition of MCL and growth of Smart-Way will help to smooth out the seasonality experienced in the rental division.

12. Operating segments:

The Company structures its operations in two operating and reportable segments: (i) equipment rental, service and sales; and (ii) waste management, based on the way that management organizes the Company's businesses for making operating decisions and assessing performance.

The equipment rental segment includes the operations of 4-Way Equipment Rentals Corp. The waste management segment includes the aggregate operations of MCL Waste Systems & Environmental Inc. and The Smart-Way Disposal & Recycling Company Ltd.

CERF INCORPORATED (FORMERLY CANADIAN EQUIPMENT RENTAL FUND LIMITED PARTNERSHIP)

Notes to the Condensed Consolidated Interim Financial Statements For the Nine Months Ended September 30, 2012 and 2011

12. Operating segments (continued):

As at and for the nine months ended September 30

(\$,000)	Equipment rental		Waste Management		Corporate Overhead		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Total segment revenue	12,225	11,833	10,293	5,855	—	—	22,518	17,688
Depreciation of property and equipment	2,060	2,035	1,332	831	4	—	3,396	2,866
Amortization of intangible assets	—	—	403	172	—	—	403	172
Impairment of goodwill	—	—	203	—	—	—	203	—
Finance costs	592	668	108	36	135	—	835	704
Segment income (loss) before tax	1,120	731	(440)	650	(1,123)	—	(443)	1,381
Purchase of property and equipment net of disposals	3,293	3,557	2,483	5,235	18	—	5,794	8,792
Goodwill	—	—	1,513	1,586	—	—	1,513	1,586
Total identifiable assets	29,896	20,589	15,321	13,447	(9,252)	—	35,965	34,036

13. Subsequent event

On October 3, 2012 CERF completed the purchase of 100% of the issued and outstanding shares of TRAC Energy Services Ltd. ("TRAC"), a private oilfield equipment rental company based in Nisku, Alberta which also has offices in Calgary. The purchase price for the acquisition was \$17,002,208, subject to working capital and other normal closing adjustments, payable by cash, including the repayment of bank and shareholder loans immediately after closing, in the amount of \$11,730,113 and by the issuance of 2,027,729 common shares ("Common Shares") in the capital of CERF Inc. at a closing price of \$2.60 per Common Share. The existing management team of TRAC is continuing as management of TRAC under CERF's ownership.

Subsequent adjustments to the purchase price included an additional \$907,322 for working capital and \$1,022,557 for new rental equipment acquired between June 1, 2012 and October 3, 2012.