Canadian Energy
SERVICES

Annual Report

For the Year Ended December 31, 2012

Year ended December 31, 2012

as at March 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Canadian Energy Services & Technology Corp., formerly Canadian Energy Services L.P. (collectively "CES" or the "Company") for the years ended December 31, 2012 and 2011, and CES' 2011 Annual Information Form. The information contained in this MD&A was prepared up to and including March 7, 2013, and incorporates all relevant considerations to that date.

Certain statements in this MD&A may constitute forward-looking information or forward-looking statements (collectively referred to as "forward-looking information") which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of CES, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", and other similar terminology. This information reflects CES' current expectations regarding future events and operating performance and speaks only as of the date of the MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. The management of CES believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements contained in this document speak only as of the date of the document, and CES assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.

In particular, this MD&A may contain forward-looking information pertaining to the following: future estimates as to dividend levels; capital expenditure programs for oil and natural gas; supply and demand for CES' products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers; dependence on suppliers of inventory and product inputs; equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada, the United States and internationally; development of new technologies; expectations regarding CES' growth opportunities in the United States; the effect of the JACAM Acquisition on the Corporation, the Corporation's plans to integrate JACAM with the operations of CES and management of CES' expectation of the effect of the JACAM Acquisition on CES's cash flow, revenues, EBITDAC and net income; expectations regarding the performance or expansion of CES' environmental and transportation operations; expectations regarding demand for CES' services and technology if drilling activity levels increase; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions; reassessment and audit risk associated with the Conversion; changes to the royalty regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; changes as a result of IFRS adoption; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2011 and "Risks and Uncertainties" in this MD&A.

Without limiting the foregoing, the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

BUSINESS OF CES

CES is focused on being the leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market.

CES has been able to capitalize on the growing market demand for both drilling fluids and production and specialty chemicals in North America. CES' business model is relatively asset light and requires limited re-investment capital to grow while generating significant free cash flow. CES returns much of this free cash flow back to shareholders through its monthly dividend.

CES operates two core businesses. The first core business is operated by the drilling fluids divisions which design and implement drilling fluid systems for the North American oil and natural gas industry. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in various basins in the United States ("US"), with an emphasis on servicing the ongoing major resource plays. Horizontal drilling is the primary method utilized to drill formations like tight gas, liquids rich gas, tight oil, heavy oil, and in the oil sands. The designed drilling fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. CES' drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process, and to assist them in meeting operational objectives and environmental compliance obligations. CES markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of both its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel. The Company operates this business under the CES and Moose Mountain Mud brands in Canada and as AES Drilling Fluids ("AES") in the US.

The second core business is operated by the production and specialty chemicals divisions which design, develop, and manufacture technically advanced solutions and products for completions and stimulations, production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. Key solutions include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. The Company's production and specialty chemical business' main manufacturing and reacting facility is located in Sterling, Kansas and its Canadian blending facility is located in Carlyle, Saskatchewan. The Company operates this business under the JACAM brand in the US and as PureChem in Canada.

With the addition of JACAM's state of the art laboratory in Sterling, Kansas, CES now operates four separate lab facilities across North America which also includes, Carlyle, Saskatchewan; Calgary, Alberta; and Houston, Texas. CES also leverages third party partner relationships to drive innovation in the consumable chemicals business.

The other complimentary business units of CES are Clear Environmental Solutions ("Clear") and EQUAL Transport ("EQUAL").

Clear is CES' environmental division, providing environmental and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. The business of Clear involves determining the appropriate processes for disposing of or recycling fluids produced by drilling operations and carrying out various related services necessary to dispose of drilling fluids.

EQUAL is CES' transport division, providing its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work, and trained personnel to transport and handle oilfield produced fluids and to haul, handle, manage and warehouse drilling fluids. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

JACAM Acquisition

Subsequent to December 31, 2012, the Company acquired the production and specialty oilfield chemical business of JACAM Chemical Company, Inc. and its subsidiaries (the "JACAM Acquisition") pursuant to the terms of an asset purchase agreement dated March 1, 2013.

JACAM is a private company that manufactures and distributes oilfield related specialty chemicals. JACAM designs and manufactures its products in Sterling, Kansas which also serves as its corporate head office. JACAM was established in 1982 and provides its products and delivers services to a large number of companies in the oil and natural gas business. JACAM's customers are predominantly producers but JACAM also sells products to service companies and to the pipeline industry.

JACAM has over 350 employees and operates in Kansas, Oklahoma, Texas, New Mexico, Colorado, Wyoming, Montana, Utah, California, and North Dakota.

The effective date of the JACAM Acquisition was March 1, 2013. The aggregate purchase price was approximately US$240,000 consisting of US$170,000 in cash paid on the date of acquisition, approximately US$60,000 in share consideration satisfied through the issuance of 5,454,546 common shares of the Company, and a US$10,000 promissory note. The promissory note incurs interest at a rate of 0.21% per annum and matures on May 1, 2013.

Additional details regarding JACAM's operations are detailed in the Company's March 1, 2013 press release which can be found at the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com or on CES's web site at www.canadianenergyservices.com.

To finance the JACAM Acquisition, the Company obtained a bridge facility of $160,000 ("JACAM Acquisition Bridge Facility") as part of the Amended Senior Facility (details in the Liquidity and Capital Resources section below) for the sole purpose of financing the JACAM Acquisition. The JACAM Acquisition Bridge Facility has a one year term and is repayable in full by February 26, 2014. The JACAM Acquisition Bridge Facility incurred commitment and other fees of $1.7 million payable on the date of draw. Amounts drawn on the JACAM Acquisition Bridge Facility incur interest at the Banker's Acceptance Rate of 3.00% which rises in quarterly increments up to 5.50%. The JACAM Acquisition Bridge Facility is also subject to quarterly duration fees on amounts outstanding on the JACAM Acquisition Bridge Facility rising from 25 basis points to 75 basis points. The Company intends to repay the JACAM Acquisition Bridge Facility with a proposed private placement financing of senior unsecured notes following the JACAM Acquisition.

THREE-FOR-ONE STOCK SPLIT

On June 30, 2011, the Company's shareholders approved a three-for-one split of CES' outstanding common shares (the "Stock Split"). The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 13, 2011. The Company's common shares commenced trading on a post-split basis on July 11, 2011, on the Toronto Stock Exchange. All share data and stock-based compensation plans presented herein have been retroactively adjusted to give effect to the stock split.

NON-GAAP MEASURES

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS or previous GAAP are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures are further defined for use throughout this MD&A as follows:

EBITDAC – is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, and stock-based compensation. EBITDAC is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC was calculated as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Net income	**2,847**	14,873	**27,869**	41,695
Add back (deduct):				
Depreciation in cost of sales	**1,918**	1,635	**7,419**	5,923
Depreciation and amortization in general and administrative expenses	**1,080**	910	**3,878**	3,527
Interest expense, net of interest income	**775**	809	**3,351**	2,769
Amortization of capitalized deferred financing costs	**62**	-	**186**	-
Current income tax expense	**672**	1,024	**13,343**	5,444
Deferred income tax expense	**674**	4,668	**2,678**	14,006
Stock-based compensation	**1,822**	1,029	**6,406**	3,324
Unrealized foreign exchange (gain) loss	**46**	(185)	**119**	(379)
Unrealized derivative (gain) loss	**114**	(242)	**(236)**	207
Loss (gain) on disposal of assets	**40**	(95)	**(85)**	(196)
EBITDAC	**10,050**	24,426	**64,928**	76,320

Funds Flow From Operations – is defined as cash flow from operations before changes in non-cash operating working capital and represents the Company's after tax operating cash flows. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. Funds Flow From Operations assists management and investors in analyzing operating performance and leverage. Funds Flow From Operations is calculated as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**37,416**	(13,023)	**87,021**	(2,293)
Adjust for:				
Change in non-cash operating working capital	**(28,813)**	35,728	**(38,787)**	70,956
Funds Flow From Operations	**8,603**	22,705	**48,234**	68,663

Distributable Earnings – is defined as Funds Flow From Operations less Maintenance Capital (the definition of Maintenance Capital is under "Operational Definitions"). Distributable Earnings are a measure used by management and investors to analyze the amount of funds available to distribute to shareholders before consideration of funds required for growth purposes. Distributable Earnings is calculated as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**37,416**	(13,023)	**87,021**	(2,293)
Adjust for:				
Change in non-cash operating working capital	**(28,813)**	35,728	**(38,787)**	70,956
Funds Flow From Operations	**8,603**	22,705	**48,234**	68,663
Maintenance Capital [(1)]	**(59)**	(1,278)	**(855)**	(2,375)
Distributable Earnings	**8,544**	21,427	**47,379**	66,288

Notes:
[1] *Refer to "Operational Definitions" for further detail.*

Gross margin – represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, field related depreciation, and all other related field related operating costs. Gross margin is computed based on the revenue and cost of sales information contained in the Company's consolidated statement of comprehensive income. Management believes this metric provides a good measure of the operating performance at the field level. Due to the inclusion or exclusion of certain cost of sales items by the Company, the computation of gross margin may not be comparable to other companies.

Payout Ratio – is defined as dividends declared as a percentage of Distributable Earnings. Payout Ratio is calculated as follows.

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**37,416**	(13,023)	**87,021**	(2,293)
Adjust for:				
Change in non-cash operating working capital	**(28,813)**	35,728	**(38,787)**	70,956
Funds Flow From Operations	**8,603**	22,705	**48,234**	68,663
Maintenance Capital [1]	**(59)**	(1,278)	**(855)**	(2,375)
Distributable Earnings	**8,544**	21,427	**47,379**	66,288
Dividends declared	**9,029**	7,156	**33,476**	26,118
Payout Ratio	**106%**	33%	**71%**	39%

Notes:
[1] *Refer to "Operational Definitions" for further detail.*

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

Expansion Capital – represents the amount of capital expenditure that has or will be incurred to grow or expand the business or would otherwise improve the productive capacity of the operations of the business.

Maintenance Capital – represents the amount of capital expenditure that has been or will be incurred to sustain the current level of operations.

Canadian Market Share – CES estimates its market share in Canada by comparing, on a semi-weekly basis, active rigs where CES was contracted to provide services to the total active rigs for Western Canada. The number of total active rigs for Western Canada is based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada.

United States Market Share – CES estimates its market share in the US by comparing, on a semi-weekly basis, active rigs where CES was contracted to provide services to the total active land rigs in the United States. The number of total active rigs in the United States is based on the weekly land based Baker Hughes North American Rotary Rig Count.

Operating Days – For its drilling fluids division, CES estimates its Operating Days, which are revenue generating days, by multiplying the average number of active rigs where CES was providing drilling fluid services by the number of days in the period.

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended December 31,			Years Ended December 31,		
($000's, except per share amounts)	**2012**	2011	% Change	**2012**	2011	% Change
Revenue	**95,028**	138,793	(32%)	**471,299**	459,257	3%
Gross margin [1]	**21,401**	37,300	(43%)	**110,167**	123,415	(11%)
Gross margin percentage of revenue [1]	**23%**	27%		**23%**	27%	
Income before taxes	**4,193**	20,565	(80%)	**43,890**	61,145	(28%)
per share – basic [2]	***0.07***	*0.37*	*(81%)*	***0.79***	*1.12*	*(29%)*
per share - diluted [2]	***0.07***	*0.36*	*(81%)*	***0.76***	*1.08*	*(30%)*
Net income	**2,847**	14,873	(81%)	**27,869**	41,695	(33%)
per share – basic [2]	***0.05***	*0.27*	*(81%)*	***0.50***	*0.76*	*(34%)*
per share - diluted [2]	***0.05***	*0.26*	*(81%)*	***0.49***	*0.74*	*(34%)*
EBITDAC [1]	**10,050**	24,426	(59%)	**64,928**	76,320	(15%)
per share – basic [2]	***0.18***	*0.44*	*(59%)*	***1.17***	*1.39*	*(16%)*
per share - diluted [2]	***0.17***	*0.43*	*(60%)*	***1.13***	*1.35*	*(16%)*
Funds Flow From Operations [1]	**8,603**	22,705	(62%)	**48,234**	68,663	(30%)
per share – basic [2]	***0.15***	*0.41*	*(63%)*	***0.87***	*1.25*	*(30%)*
per share - diluted [2]	***0.15***	*0.40*	*(63%)*	***0.84***	*1.22*	*(31%)*
Dividends declared	**9,029**	7,156	26%	**33,476**	26,118	*28%*
per share	***0.16***	*0.13*	*23%*	***0.60***	*0.48*	*25%*

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and twelve months ended December 31, 2012, in comparison to the three and twelve months ended December 31, 2011, for CES are as follows:

- During Q4 2012, the Company completed two acquisitions.

  On November 21, 2012, in order to expand the Company's Canadian drilling fluid division, the Company completed the acquisition of the business assets of Tervita Corporation's ("Tervita") drilling fluids division, ProDrill Fluid Technologies ("ProDrill"). The aggregate purchase price was $12.1 million, consisting of $8.7 million in cash, $3.3 million in share consideration through the issuance of 324,562 common shares of the Company, and $0.1 million related to a working capital adjustment. In conjunction with the acquisition of ProDrill, CES and Tervita have also entered into both a streaming agreement whereby CES will purchase oil recovered from certain Tervita facilities and a marketing agreement whereby CES and Tervita will strategically market integrated services across North America in opportunistic situations where an integrated offering is requested by or provides an advantage to the customer. As a result, Tervita and CES will be able to jointly market and execute on new opportunities that require the expertise and scale that only the combined efforts of both companies could provide. The ProDrill acquisition closed on November 21, 2012 and $0.07 million of transaction costs was incurred. Due to the timing, CES saw minimal positive impact of the acquisition to revenue and EBITDAC in Q4 2012. Going forward the alliance with Tervita and the integration of ProDrill's people, technologies, and customer opportunities into CES' Canadian drilling fluid operations is expected to provide a positive contribution to revenue and EBITDAC.

  On December 31, 2012, in order to expand the Company's US operations, the Company completed the acquisition of all of the business assets of Mega Fluids Mid-Continent, LLC ("Mega Fluids"), a privately–held drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the Mid-Continent region. The aggregate

purchase price was $11.2 million (US$11.3 million), consisting of $3.6 million (US$3.7 million) in cash, $4.0 million (US$4.0 million) in share consideration through the issuance of 376,677 common shares of the Company, and $3.6 million (US$3.6 million) in additional deferred acquisition consideration. The acquisition is expected to strengthen CES' position as the leading independent North American drilling fluids provider and expand the scale and operational capabilities of AES within the Mid-Continent region of the US market, while placing AES as a leader in the emerging Mississippi Lime oil play. At closing, Mega Fluids was providing drilling fluids products and services to sixteen active drilling rigs. Given the timing of the acquisition on December 31, 2012 and that $0.04 million of transaction costs were incurred, CES saw a slight negative impact of the acquisition to EBITDAC in Q4 2012. The acquisition is expected to provide a positive contribution to revenue and EBITDAC to the Company's US operations going forward.

- CES generated gross revenue of $95.0 million during the fourth quarter of 2012, compared to $138.8 million for the three months ended December 31, 2011, a decrease of $43.8 million or 32% on a year-over-year basis. Revenue from Canadian operations for the three months ended December 31, 2012, decreased $21.2 million or 32% to $44.2 million while the US revenue decreased $22.6 million or 31% to $50.8 million. The decreases were indicative of lower year-over-year activity levels due to reduced customer spending as 2012 capital programs came to a close. In Canada this was further affected by the suspension of operations of one of CES's largest customers during the quarter. In the US, the slowdown was mostly sharply experienced in the Marcellus where activity continued to drop in a basin focused predominantly on dry gas targets.

  Q4 2012 was a difficult quarter for CES with a number of events as described above that contributed to weaker quarterly results. However, with a shift in activity in the US to new work in the Eagle Ford, the addition of significant work in the Mississippi Lime as a result of the Mega Fluids acquisition, and a pick-up of activity in the other regions the US drilling fluids business is back on track. In Canada, a combination of the ProDrill acquisition and a pick-up of activity in the traditionally robust winter drilling season has Canadian drilling fluids also back on track.

- Despite a slowdown in operations during Q4 2012, year-to-date gross revenue totaled $471.3 million, compared to $459.3 million during 2011 (2010 - $249.1 million), representing an increase of $12.0 million or 3% on a year-over-year basis. Revenue from Canadian operations for the year ended December 31, 2012, decreased $4.4 million or 2% to $204.6 million while the US operations contributed to year-over-year revenue gains with a $16.5 million or 7% increase to $266.7 million.

- CES' estimated Canadian Market Share was approximately 30% in 2012, up from 28% in 2011. Estimated market share in Western Canada averaged 27% in Q4 2012, down from 30% in Q4 2011. CES' Operating Days were estimated to be 8,697 for the three month period ended December 31, 2012, a decrease of 34% from 13,156 Operating Days during the same period last year. The year-over-year decline in Q4 revenue is correlated to the decline in operating days experienced. CES' year-to-date Operating Days in Western Canada were estimated to total 38,139 for 2012 compared to 42,702 during the same period last year, representing a decrease of 11%. In Q4 2012, overall industry activity decreased approximately 26% from an average monthly rig count in Q4 2011 of 489 to 363 based on CAODC published monthly data for Western Canada. For 2012, the CAODC average monthly rig count for Western Canada has averaged 353 as compared to 417 in 2011, representing a year-over-year decrease of 15%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $35.1 million for the three months ended December 31, 2012 compared to $54.9 million for the three months ended December 31, 2011, representing a decrease of $19.8 million or 36%. As noted above, drilling fluid sales were negatively affected by lower year-over-year activity levels due to reduced customer spending as 2012 capital programs came to a close. For the twelve month period ended December 31, 2012, revenue from drilling fluids related sales of products and services in Western Canada was $168.5 million compared to $173.0 million for the twelve months ended December 31, 2011, representing a decrease of $4.4 million or 3%. Average revenue per Operating Day for the three months ended December 31, 2012, was $4,040 compared to $4,176 for the three months ended December 31, 2011, representing a decrease of 3%. Despite a slowdown in Canadian Operating Days during 2012, year-to-date daily average revenue per Operating Day was $4,419 compared to $4,050 in 2011, representing a year-over-year increase of 9%. Average revenue per Operating Day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells in the WCSB. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased. The trend though does appear to be flattening out as most drilling operations have turned to horizontal drilling and efficiencies are being implemented.

- CES' estimated United States Market Share was approximately 6% in 2012, consistent with 6% in 2011. Estimated market share in the United States averaged 5% in Q4 2012, down slightly from 6% in Q4 2011. Operating Days in the United States were estimated to be 8,244 Operating Days for the three month period ended December 31, 2012, a decrease of 22%

from 10,520 Operating Days during the same period last year. CES' Operating Days in the United States and estimated United States Market Share declined in October and November of 2012 predominantly in the Marcellus where activity continued to drop in a basin focused predominantly on dry gas targets. Consequently, CES' Operating Days and United States Market Share declined until additional work started to be picked up in the Eagle Ford region in December 2012. This pick-up has continued in Q1 2013, and the Mega Fluids acquisition related work has also been added effective January 1, 2013. Estimated Operating Days during 2012 were 38,469 as compared to 39,013 Operating Days in 2011, representing a decrease of 1%.

- Revenue generated in the US from drilling fluid sales of products and services for the three months ended December 31, 2012 was $50.8 million as compared to the fourth quarter of 2011 with revenue of $73.4 million, representing a decrease of $22.5 million or 31% on a year-over-year basis. As noted above, the reduction in operating days correlates to the decline in revenues in Q4 2012. Daily average revenue per Operating Day for the three months ended December 31, 2012, was $6,163 compared to $6,973 for the three months ended December 31, 2011, representing a decrease of 12%. This too is reflective of the shift of activity away from the Marcellus which, based on the technically advanced fluids deployed there, is the highest revenue per day region for the Company. Despite a slowdown in revenue generated in the US from drilling fluid sales in Q4 2012, revenue generated in the US totalled $266.7 million as compared to $250.2 million in the previous year representing an increase of $16.5 million or 7%. For 2012, daily average revenue per Operating Day was $6,934 compared to $6,414 in 2011, representing a year-over-year increase of 8%. The year-over-year increase in average revenue per Operating Day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells in the US. Similarly to Canada though, this trend does appear to be flattening out as most drilling operations have turned to horizontal drilling and efficiencies are being implemented.

- During the fourth quarter of 2012, revenue from trucking operations, gross of intercompany eliminations, totalled $4.1 million, a decrease of $1.5 million or 26% from the $5.6 million for the three months ended December 31, 2011. For 2012, revenue from trucking operations, gross of intercompany eliminations, totalled $17.9 million as compared to $19.4 million during 2011 representing a decrease of $1.6 million or 8%. The decrease in trucking revenue is tracking the overall reduction in the industry wide Canadian drilling activity.

- Clear Environmental Solutions division generated $5.1 million of revenue for the three month period ended December 31, 2012, consistent with $5.1 million during the prior year. Revenue from Clear for the twelve month period ended December 31, 2012 totalled $19.0 million as compared to $17.4 million for the same period in 2011, representing an increase of $1.6 million or 9%. Clear has continued to market its services aggressively and has capitalized on new regulations in Alberta that have required additional environmental disclosures and procedures by operators.

- For the three month period ended December 31, 2012, CES recorded gross margin of $21.4 million or 23% of revenue, compared to gross margin of $37.3 million or 27% of revenue generated in the same period last year. The decrease in gross margin percentages is a result of several factors. As revenues were down in Q4 2012, the fixed costs associated with both the US business and the Canadian business were absorbed by a lower gross revenue number. CES recognized that the slowdown in Q4 was a short-term anomaly and as such did not reduce staff or other variable expenses that would be required immediately when activity increased in Q1 2013. As well, throughout 2012 across all of its operations, CES faced some cost inflation on a number of its input products which have not yet been fully passed on to customers. CES will endeavour to pass on these price increases as appropriate to operators but must manage this prudently given the cash flow challenges currently faced by operators. For the twelve month period ended December 31, 2012, gross margin totalled $110.2 million or 23% of revenue as compared to $123.4 million or 27% in 2011.

- For the three month period ended December 31, 2012, general and administrative costs were $16.1 million as compared to $16.0 million for the comparative period in 2011, an increase of $0.1 million. As a percentage of revenue for the three months ended December 31, 2012, general and administrative costs were 17% as compared to 12% for the fourth quarter in 2011. The relative increase on a percentage basis is attributable to the decline in revenue on a year-over-year basis as CES did not reduce labour and other costs in response to a short-term activity pull-back in Q4 2012. For the twelve month period ended December 31, 2012, general and administrative costs were $62.7 million as compared to $58.7 million for the comparative period in 2011, representing an increase of $3.9 million. As a percentage of revenue for the year ended December 31, 2012, general and administrative costs were 13%, consistent with 13% in 2011.

  On an absolute basis, much of the year-over-year change in general and administrative expenses for the three months ended December 31, 2012 is due to non-cash expense increases related to stock-based compensation and depreciation and amortization costs in the amount of $1.0 million which was offset by lower activity levels in the quarter. For the year ended

December 31, 2012, the increase of these two non-cash items, accounted for $3.4 million of the general and administrative cost increase. The remainder of the year-over-year increase in G&A costs is due to a combination of factors including higher staff levels associated with higher activity levels during 2012 as compared to 2011. Included in general and administrative expenses during the three and twelve months ended December 31, 2012, are stock-based compensation costs of $1.8 million and $6.4 million, respectively (2011 - $1.0 million and $3.3 million, respectively), and depreciation and amortization costs of $1.1 million and $3.9 million, respectively (2011 - $0.9 million and $3.5 million, respectively).

- EBITDAC for the three months ended December 31, 2012, was $10.1 million as compared to $24.4 million for the three months ended December 31, 2011, representing a decrease of $14.4 million or 59%. For the twelve month period ended December 31, 2012, EBITDAC totalled $64.9 million as compared to $76.3 million in 2011 representing a decrease of $11.4 million or 15%. CES recorded EBITDAC per share of $0.18 ($0.17 diluted) for the three months ended December 31, 2012 versus EBITDAC per share of $0.44 ($0.43 diluted) in 2011, a decrease of 59% (60% diluted). For 2012, CES recorded EBITDAC per share of $1.17 ($1.13 diluted) versus EBITDAC per share of $1.39 ($1.35 diluted) in 2011, a decrease of 16%.

- CES recorded net income of $2.8 million for the three month period ended December 31, 2012 as compared to $14.9 million in the prior year. CES recorded net income per share of $0.05 ($0.05 diluted) for the three months ended December 31, 2012 versus $0.27 ($0.26 diluted) in 2011. For the twelve month period ended December 31, 2012, CES recorded net income of $27.9 million, compared with the $41.7 million generated for the same period last year (2010 – $34.3 million). Year-over year, basic net income per share was $0.50 ($0.49 diluted), a decrease from $0.76 ($0.74 diluted) per share for the same period in 2011 (2010 –$0.76 basic ($0.74 diluted)). For the three and twelve month periods ended December 31, 2012, the respective year-over-year net income was negatively impacted by weaker gross margins, higher tax expense, and higher non-cash depreciation and amortization expenses and stock-based compensation.

- On October 2, 2012, the Company completed an amendment to its existing Senior Facility including an upsizing and syndication of the facility. The syndicated Senior Facility ("Senior Facility") allows the Company to borrow up to $150 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Senior Facility now has a term to maturity of three years, maturing on October 2, 2015 and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by $30.0 million to a maximum borrowing of $180.0 million subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25%, or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Senior Facility has a standby fee ranging from 0.40% to 0.73%.

  Subsequent to December 31, 2012, in conjunction with the JACAM Acquisition noted above, on February 26, 2013, the Company completed a second amendment and restatement to its existing syndicated Senior Facility ("Amended Senior Facility"). With the exception of the change to the Company's debt covenants, the terms and conditions of Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

- At December 31, 2012, based on eligible accounts receivable, inventory and capital asset balances, the maximum available draw on the Amended Senior Facility was $98.2 million (December 31, 2012 - $120.0 million). At December 31, 2012, the Company had drawn $67.4 million on the Amended Senior Facility (December 31, 2012 - $93.4 million).

- CES continued to maintain a strong statement of financial position or "balance sheet" at December 31, 2012, with positive net working capital of $114.9 million (December 31, 2011 - $153.7 million) representing a decrease of $38.8 million. The year-over-year decline in working capital is due to the overall decline in quarterly activity on a year-over-year basis. The year-over-year decrease in working capital balances is comprised of a $58.9 million decrease in accounts receivable, $1.0 million decrease in prepaid expenses, offset by a $27.9 million decrease in accounts payable and accrued liabilities, and a $2.0 million increase in inventory.

- In November 2012, the Company raised its monthly dividend 10% from $0.05 per month to $0.055 per month. This represents the second dividend increase during 2012. The dividend was raised with visibility to the activity pick-up in Q1 2013. During the fourth quarter of 2012, CES declared monthly dividends in aggregate of $0.16 per share for the quarter. This compares to $0.13 per share for the comparable quarter in 2011. During the year ended December 31, 3012, CES declared total dividends per common share of $0.60 (December 31, 2011 – $0.476). During the fourth quarter of 2012, the Payout Ratio averaged 106% as compared to 33% in 2011. For 2012, the Payout Ratio averaged 71% as compared to 39%

in 2011. Management and the Board of Directors review the appropriateness of dividends on a monthly basis, taking into account industry conditions, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and Payout Ratio.

- On April 12, 2012, the Company's common shares commenced trading in the United States on the highest tier of the OTC market, the OTC International Marketplace ("OTCQX"), under the trading symbol CESDF. OTCQX securities are quoted on the OTC Link platform, operated by OTC Markets Group. The OTCQX listing provides the Company with a cost-effective means of enhancing its visibility and accessibility to U.S. based investors.

- On February 16, 2012, in order to expand the Company's drilling fluid and production chemical manufacturing division, the Company completed the acquisition of all the business assets of Petrotreat Inc. ("Petrotreat"), a privately-held production chemical and well stimulation service company. The aggregate purchase price was $3.2 million, consisting of $1.3 million in cash and $1.9 million in share consideration through the issuance of 147,826 common shares of the Company. The transaction has and will continue to grow the CES' PureChem division.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000's, except per share amounts)	**2012**	2011	$ Change	% Change
Revenue	**95,028**	138,793	(43,765)	(32%)
Cost of sales	**73,627**	101,493	(27,866)	(27%)
Gross margin [(1)]	**21,401**	37,300	(15,899)	(43%)
Gross margin percentage of revenue [(1)]	**23%**	27%		
General and administrative expenses	**16,055**	16,010	45	0%
Finance costs	**1,153**	725	428	59%
Income before taxes	**4,193**	20,565	(16,372)	(80%)
Current income tax expense	**672**	1,024	(352)	(34%)
Deferred income tax expense	**674**	4,668	(3,994)	(86%)
Net income	**2,847**	14,873	(12,026)	(81%)
Net income per share – basic	***0.05***	*0.27*	*(0.22)*	*(81%)*
Net income per share – diluted	***0.05***	*0.26*	*(0.21)*	*(81%)*
EBITDAC [(1)]	**10,050**	24,426	(14,376)	(59%)

Common Shares Outstanding	**2012**	2011	% Change
End of period	**56,847,853**	55,138,435	3%
Weighted average			
- basic	**56,193,530**	55,001,647	2%
- diluted	**57,792,055**	56,870,630	2%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*

	Years Ended December 31,			
($000's, except per share amounts)	**2012**	2011	$ Change	% Change
Revenue	**471,299**	459,257	12,042	3%
Cost of sales	**361,132**	335,842	25,290	8%
Gross margin [(1)]	**110,167**	123,415	(13,248)	(11%)
Gross margin percentage of revenue [(1)]	**23%**	27%		
General and administrative expenses	**62,636**	58,693	3,943	7%
Finance costs	**3,641**	3,577	64	2%
Income before taxes	**43,890**	61,145	(17,255)	(28%)
Current income tax expense	**13,343**	5,444	7,899	145%
Deferred income tax expense	**2,678**	14,006	(11,328)	81%
Net income	**27,869**	41,695	(13,826)	(33%)
Net income per share – basic [(3)]	***0.50***	*0.76*	*(0.26)*	*(34%)*
Net income per share - diluted [(3)]	***0.49***	*0.74*	*(0.25)*	*(34%)*
EBITDAC [(1)]	**64,928**	76,320	(11,392)	(15%)

Common Shares Outstanding	**2012**	2011	% Change
End of period	**56,847,853**	55,138,435	3%
Weighted average			
- basic	**55,693,220**	54,745,391	2%
- diluted	**57,395,332**	56,483,369	2%

	As at		
Financial Position ($000's)	**December 31, 2012**	December 31, 2011	% Change
Net working capital	**114,899**	153,660	(25%)
Total assets	**354,642**	385,351	(8%)
Long-term financial liabilities [(2)]	**71,575**	96,779	(26%)
Shareholders' equity	**215,420**	204,060	6%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Includes long-term portion of the Amended Senior Facility, vehicle financing, and finance leases.
[3]Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.

Revenue and Operating Activities

CES generated gross revenue of $95.0 million during the fourth quarter of 2012, compared to $138.8 million for the three months ended December 31, 2011, a decrease of $43.8 million or 32% on a year-over-year basis. Revenue from Canadian operations for the three months ended December 31, 2012, decreased $21.2 million or 32% to $44.2 million while the US revenue decreased $22.6 million or 31% to $50.8 million. The decreases were indicative of lower year-over-year activity levels due to reduced customer spending as 2012 capital programs came to a close. In Canada, this was further affected by the suspension of operations of one of CES's largest customers during the quarter. In the US, the slowdown was mostly sharply experienced in the Marcellus where activity continued to drop in a basin focused predominantly on dry gas targets. Q4 2012 was a difficult quarter for CES with a number of events as described above that contributed to weaker quarterly results. However, with a shift in activity in the US to new work in the Eagle Ford; the addition of significant work in the Mississippi Lime as a result of the Mega Fluids acquisition; and a pick-up of activity in the other regions the US drilling fluids business is back on track. In Canada, a combination of the ProDrill acquisition and a pick-up of activity in the traditionally robust winter drilling season has Canadian drilling fluids also back on track. Despite a slowdown in operations during the back half of 2012, CES generated gross revenue of $471.3 million as compared to $459.3 million for the same period in 2011 (2010 - $249.1 million), representing an increase of $12.0 million or 3%.

Of the revenue generated during the fourth quarter of 2012, $35.1 million (2011 - $54.9 million) was generated in the Western Canadian drilling fluids business; $50.8 million (2011 - $73.4 million) was generated in the US drilling fluids business; $5.1 million (2011 - $5.1 million) was contributed by the Clear environmental division, and $4.1 million (2011 - $5.6 million), gross of intercompany eliminations of $0.2 million (2011 - $0.2 million), was generated by trucking operations.

For the year ended December 31, 2012, $168.5 million (2011 - $173.0 million) was generated in the Western Canadian drilling fluids business; $266.7 million (2011 - $250.2 million) was generated in the US drilling fluids business; $19.0 million (2011 - $17.4 million) was contributed by the Clear environmental division, and $17.9 million (2011 - $19.4 million), gross of intercompany eliminations of $0.8 million (2011 - $0.8 million), was generated by trucking operations.

For the three and twelve months ended December 31, 2012, CES' top customers accounted for the following % of total revenue:

	Three Months Ended December 31,		Years Ended December 31,	
	2012	2011	**2012**	2011
Top five customers as a % of total revenue	**42%**	33%	**40%**	33%
Top customer as a % of total revenue	**15%**	14%	**16%**	14%

According to CAODC published monthly data for Western Canada, the active monthly rig count in Western Canada averaged 363 for the three months ended December 31, 2012, representing a 26% decrease from the average rig count of 489 during the fourth quarter of 2011. For 2012, the CAODC average monthly rig count for Western Canada has averaged 353 compared to 417 in 2011, representing a year-over-year decrease of 15%.

CES estimated Operating Days from its drilling fluids services as compared to the respective 2011 comparatives are as follows:

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011	% Change	**2012**	2011	% Change
Canada	**8,697**	13,156	(34%)	**38,139**	42,702	(11%)
US	**8,244**	10,520	(22%)	**38,469**	39,013	(1%)
Total Operating Days [1]	**16,941**	23,676	(28%)	**76,608**	81,715	(6%)

Notes:
[1] Refer to "Operational Definitions" for further detail.

CES' estimated Canadian Market Share in Western Canada was 30% in 2012, up from 28% in 2011. Estimated market share in Western Canada averaged 27% in Q4 2012, slightly down from 30% in Q4 2011. CES believes its customer focused, technically advanced solutions will help it maintain its significant market share in Western Canada as a larger percentage of drilling activity is focused on deeper, horizontal wells and the economics of drilling have become more difficult for operators.

In the United States, CES' estimated United States Market Share was 6% in 2012, consistent with 6% in 2011. Estimated market share in the United States averaged 5% in Q4 2012, slightly down from 6% in Q4 2011. United States Market Share declined in October and November of 2012 predominantly in the Marcellus where activity continued to drop in a basin focused on dry gas targets. At the date of this MD&A, CES's estimated United States Market Share was tracking 6% for Q1 2013.

Revenue per estimated Operating Day for the Canadian and US drilling fluids segments as compared to the respective 2011 comparatives are as follows:

	Three Months Ended December 31,			Years Ended December 31,		
$000's	**2012**	2011	% Change	**2012**	2011	% Change
Canadian Drilling Fluids	**4,040**	4,176	(3%)	**4,419**	4,050	9%
United States Drilling Fluids	**6,163**	6,973	(12%)	**6,934**	6,414	8%

Overall, CES' drilling fluid business continues to focus on the ongoing major resource plays and, in particular, horizontal drilling activity focused on either oil or liquids rich gas targets. Horizontal drilling represents the dominate share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex and deeper wells. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled, and becomes even more critical as operators drill horizontally. Year-over-year, revenue per day is tracking upwards as the industry continues to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased. The trend though does appear to be flattening out as most drilling operations have turned to horizontal drilling and efficiencies are being implemented.

Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, field related depreciation, and all other related field costs. Margins vary due to a change in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, trucking, environmental, etc.). Generally, labour costs have less of an impact on CES' margins than other cost elements such as product costs. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

CES achieved gross margin of $21.4 million or 23% of revenue for the three month period ended December 31, 2012, as compared to $37.3 million or 27% of revenue in the fourth quarter of 2011. The decrease in gross margin percentages is a result of several factors. As revenues were down in Q4 2012, the fixed costs associated with both the US business and the Canadian business were absorbed by a lower gross revenue number. CES recognized that the slowdown in Q4 2012 was a short-term anomaly and as such did not reduce staff or other variable expenses that would be required immediately when activity increased in Q1 2013. As well, throughout 2012 across all of its operations, CES faced some cost inflation on a number of its input products which have not yet been fully passed on to customers. CES will endeavour to pass on these price increases as appropriate to operators but must manage this prudently given the cash flow challenges currently faced by operators. For the

twelve month period ended December 31, 2012, gross margin totalled $110.2 million or 23% of revenue as compared to $123.4 million or 27% in 2011.

Depreciation as it relates to assets associated with operations and operating related activities and gains and losses on disposal of assets are included in cost of sales under IFRS, and accordingly are added back to the gross margin in order to calculate a 'cash gross margin' consistent with that of historical measurement prior to the transition to IFRS.

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Gross margin [(1)]	**21,401**	37,300	**110,167**	123,415
as a percentage of revenue	**23%**	27%	**23%**	27%
Add back (deduct):				
Depreciation included in cost of sales	**1,918**	1,635	**7,419**	5,923
Gain loss on disposal of assets included in cost of sales	**40**	(95)	**(85)**	(196)
Cash gross margin	**23,359**	38,840	**117,501**	129,142
as a percentage of revenue	**25%**	28%	**25%**	28%

Notes:
[1] *Refer to "Non-GAAP Measures" for further detail.*

General and Administrative Expenses ("G&A")

G&A for the three month period ended December 31, 2012, was $16.1 million as compared to $16.0 million for the same period in 2011, representing an increase of $0.1 million or 0.3% year-over-year. G&A as a percentage of revenue for the three months ended December 31, 2012, was 17% (2011 – 12%). For 2012, G&A was $62.6 million as compared to $58.7 million for the same period in 2011, representing an increase of $3.9 million or 7%. G&A as a percentage of revenue for the year ended December 31, 2012 was 13% (2011 – 13%).

Stock-based compensation is included as part of G&A. The stock-based compensation component of G&A was $1.8 million for the three months ended December 31, 2012 as compared to $1.0 million during the same period last year. In 2012, stock-based compensation was $6.4 million as compared to $3.3 million in 2011. The respective year-over-year increase is primarily attributable to the issuance of share rights under the share rights incentive plan and restricted share units under the restricted share units plan throughout the latter part of 2011 and throughout 2012.

On an absolute basis, much of the year-over-year change in general and administrative expenses is due to non-cash expense increases related to stock-based compensation and depreciation and amortization. For the three months ended December 31, 2012, these costs increased by $1.0 million year-over-year but were offset by reduction in other expense due lower activity levels in the quarter.

For the year ended December 31, 2012, the increase in stock-based compensation and depreciation and amortization accounted for $3.4 million of the general and administrative cost increase. The remainder of the year-over-year increase in G&A costs is due to a combination of factors including higher staff levels associated with higher activity levels during 2012 as compared to 2011. Included in general and administrative expenses for the three and twelve months ended December 31, 2012, are stock-based compensation costs of $1.8 million and $6.4 million, respectively (2011 - $1.0 million and $3.3 million), and depreciation and amortization of $1.1 million and $3.9 million, respectively (2011 - $0.9 million and $3.5 million).

Depreciation and Amortization

Depreciation and amortization expenses are included in both costs of sales and general and administrative expenses on the Company's consolidated statement of comprehensive income.

Depreciation of property and equipment and amortization of intangibles totalled $3.0 million for the three month period ended December 31, 2012, as compared to $2.5 million for the same period in 2011. For the three months ended December 31, 2012, $1.9 million (2011 – $1.6 million) of depreciation was included in cost of sales and $1.1 million (2011 – $0.9 million) of depreciation and amortization was included in general and administrative expenses. For the twelve months ended December 31, 2012, depreciation of property and equipment and amortization of intangibles totalled $11.3 million as compared to $9.4 million in 2011. For the twelve months ended December 31, 2012, $7.4 million (2011 – $5.9 million) of depreciation was included in cost of sales and $3.9 million (2011 – $3.5 million) of depreciation and amortization was included in general and administrative

expenses. The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's continued investment in the expansion of operations in both Canada and the United States.

Finance Costs

Finance costs were $1.2 million for the three months ended December 31, 2012, as compared to $0.7 million during the same period last year. For the year ended December 31, 2012, finance costs were $3.6 million as compared to $3.6 million for 2011.

Interest expense

Finance costs include interest expense of $0.8 million for the three months ended December 31, 2012, consistent with $0.8 million in the fourth quarter of 2011. In 2012, CES incurred interest expense of $3.4 million, as compared to $2.8 million during 2011. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various long-term debt and lease facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans capitalized lease facilities, the Senior Facility and Amended Senior Facility.

Foreign exchange gains and loses

Finance costs for the three months ended December 31, 2012 include a net foreign exchange loss of $0.3 million (2011 – a loss of $0.1 million) primarily related to foreign exchange losses on the Company's US denominated cash and accounts payable. For the year ended December 31, 2012, CES recorded a net foreign exchange loss of $0.3 million (2011 – a loss of $0.7 million) primarily related to foreign exchange losses on the Company's US denominated cash balances and foreign currency denominated payables.

Derivative Gains and Losses

Finance costs for the three and twelve month periods ended December 31, 2012, include a realized derivative gain of $0.09 million and a realized derivative loss of $0.04 million, respectively (2011 – a loss of $0.04 million and a gain of $0.1 million, respectively), relating to its foreign currency derivative contracts. For the three and twelve month periods ended December 31, 2012, CES recorded an unrealized loss of $0.1 million and an unrealized gain of $0.2 million, respectively (2011 – a gain of $0.2 million and a loss of $0.2 million, respectively) relating to its foreign currency derivative contracts. The unrealized loss in Q4 2012 relates to the mark-to-market of outstanding unsettled foreign currency derivative contracts at December 31, 2012, and was a result of the appreciation of the US dollar relative to the Canadian dollar in the fourth quarter. As of December 31, 2012, the Company had financial derivative assets of net $0.04 million relating to its outstanding derivative contracts (December 31, 2011-net liability of $0.2 million).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies.

At December 31, 2012, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to a portion of expected upcoming US dollar denominated cash flows:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2013	US$570	Deliverable Forward	Physical Sale	$1.0072
February 2013	US$570	Deliverable Forward	Physical Sale	$1.0077
March 2013	US$570	Deliverable Forward	Physical Sale	$1.0073
April 2013	US$325	Deliverable Forward	Physical Sale	$1.0298
May 2013	US$325	Deliverable Forward	Physical Sale	$1.0304
Total	US$2,360			$1.0137

Current and Deferred Income Taxes

During the three and twelve months ended December 31, 2012, the Company recorded current income tax expense of $0.7 million and $13.3 million respectively as compared to $1.0 million and $5.4 million respectively in 2011. During 2012, the current income tax expense is related to taxable income in both Canada and the United States.

The year-over-year increase in current income tax expense is primarily due to higher taxable income in the United States during 2012 as compared to 2011 and because during 2011 the Company had available non-capital tax loss pools in Canada which were utilized to reduce current income taxes. The Company's remaining Canadian non-capital tax loss pools in Canada which were subsequently utilized in Q1 2012. At December 31, 2012, the Company had $nil of Canadian and US federal non-capital losses

remaining. The Company had Canadian capital loss carry forward pools of $21.6 million. There is limited ability for the Company to utilize these capital loss carry forward pools.

In the fourth quarter of 2012, the Company recorded a deferred income tax expense of $0.7 million compared to a deferred income tax expense of $4.7 million in Q4 2011. For 2012, the Company recorded a deferred income tax expense of $2.7 million compared to a deferred income tax expense of $14.0 million in the prior year. The deferred income tax expense recorded for the three and twelve months ended December 31, 2012 relates to a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The year-over-year decrease in deferred income tax expense is primarily due to the Company having no non-capital loss pools in Canada and due to decline in bonus depreciation rates for asset additions in the US during 2012.

During Q4 2012, the Company completed an internal reorganization of the financing of its wholly owned subsidiary AES Drilling Fluids Holdings, LLC (and its subsidiaries) in order to improve the financing efficiency of the Company's operations. The reorganization will reduce its current income taxes during future periods. The reorganization did not have an impact on the Company's income tax expense in 2012, however, the Company incurred approximately $0.3 million in initial set up costs which were recorded to general and administrative expenses during the quarter.

Net Working Capital

At December 31, 2012, the Company had positive net working capital of $114.9 million (December 31, 2011 - $153.7 million, December 31, 2010 - $34.1 million) representing a year-over-year decrease of $38.8 million. The year-over-year decline in working capital is due to the overall decline in quarterly activity on a year-over-year basis. The year-over-year decrease in working capital balances is comprised of a $58.9 million decrease in accounts receivable, $1.0 million decrease in prepaid expenses, offset by a $27.9 million decrease in accounts payable and accrued liabilities and a $2.0 million increase in inventory.

Total Current Assets

Total current assets of CES decreased from $230.1 million at December 31, 2011 to $172.7 million at December 31, 2012 (December 31, 2010 - $134.6 million). The decrease is primarily due to a slowdown in business activity in Q4 2012 and the resulting decrease in accounts receivable balances of $58.9 million, an increase of $2.0 million in inventory balances, and a decrease of $1.0 million in prepaid expenses.

Total Long-Term Assets

During the year, total long-term assets of CES increased by $27.1 million to $181.9 million at December 31, 2012 from $154.8 million at December 31, 2011 (December 31, 2010 - $153.3 million). Of the $27.1 million increase during the year, notable changes were a $14.9 million increase in goodwill assets as a result of business acquisition transactions in 2012, $11.1 million increase in property and equipment, and a $1.5 million increase in intangible assets relating to assets acquired through business combinations offset by a $0.3 million decrease in deferred income tax assets relating to the use of the Company's non-capital tax loss pools.

Long-Term Financial Liabilities

CES had long-term debt totalling $68.8 million at December 31, 2012, compared to $94.1 million at December 31, 2011 (December 31, 2010 - $3.6 million), for a decrease of $25.3 million. At December 31, 2012, long-term financial liabilities were comprised of the following balances:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Senior Facility	**67,410**	93,362
Vehicle financing loans	**2,362**	1,449
	69,772	94,811
Less current portion of long-term debt	**(1,014)**	(747)
Long-term debt	**68,758**	94,064

At December 31, 2012, the Company had finance lease liabilities of $5.4 million, net of the current portion of $2.6 million, for an increase of $0.1 million compared to December 31, 2011.

	As at	
$000's	**December 31, 2012**	December 31, 2011
Finance lease obligations	**5,407**	5,077
Less current portion of finance lease obligations	**(2,590)**	(2,362)
Long-term finance lease obligations	**2,817**	2,715

During the twelve month period ended December 31, 2012, the Company made long-term scheduled debt and lease repayments totalling $4.0 million on its finance leases, vehicle debt, and credit facilities.

On October 2, 2012, the Company completed an amendment to its existing Senior Facility. The amended syndicated Senior Facility ("Senior Facility") allows the Company to borrow up to $150.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Senior Facility now has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by $30.0 million to a maximum borrowing of $180.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25% or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Senior Facility has a standby fee ranging from 0.40% to 0.73%. The covenants on the Senior Facility remain consistent with the covenants on the previous Senior Facility.

Following the amendments to the Senior Facility for the JACAM Acquisition, with the exception of the change to the Company's debt covenants, the terms and conditions of Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

Shareholders' Equity

Shareholders' equity increased from $204.1 million at December 31, 2011 to $215.4 million at December 31, 2012. The increase in shareholders' equity is primarily attributable to the $27.9 million in net income of CES, $9.1 million relating to shares issued as consideration for acquired businesses, $3.6 million relating to the issuance of equity, a $6.4 million increase to contributed surplus as a result of stock-based compensation expense, offset by $33.5 million of dividends declared by the Company during the year and a $2.1 million increase in accumulated other comprehensive loss relating to the translation of the Company's wholly-owned US subsidiary.

SEGMENTED RESULTS

In Q4 2012, CES operated in two geographical segments: Canada and the United States. Geographical information relating to the Company's activities is as follows:

	Revenue		Revenue	
	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Canada	**44,224**	65,437	**204,561**	209,013
United States	**50,804**	73,356	**266,738**	250,244
Total	**95,028**	138,793	**471,299**	459,257

In Q4 2012, the decreases in gross revenue were indicative of lower year-over-year activity levels due to reduced customer spending as 2012 capital programs came to a close. In Canada, this was further affected by the suspension of operations of one of CES's largest customers during the quarter. In the US, the slowdown was mostly sharply experienced in the Marcellus where activity continued to drop in a basin focused predominantly on dry gas targets. Q4 2012 was a difficult quarter for CES with a number of events as described above that contributed to weaker quarterly results. However, with a shift in activity in the US to new work in the Eagle Ford; the addition of significant work in the Mississippi Lime as a result of the Mega Fluids acquisition; and a pick-up of activity in the other regions the US drilling fluids business is back on track. In Canada a combination of the ProDrill acquisition and a pick-up of activity in the traditionally robust winter drilling season has Canadian drilling fluids also back on track.

For the year ended 2012, CES had three reportable operating segments as determined by management: Drilling Fluids, Trucking, and Environmental Services. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the WCSB and in the US through its wholly owned subsidiary, AES. Results for the production and specialty chemical division reflecting the operations of PureChem for the three and twelve months ended December 31, 2012, have been included in the Drilling Fluids segment. The Trucking segment (EQUAL) is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment consists of Clear Environmental Services which provides environmental and drilling fluids waste disposal services to oil and gas producers in the WCSB. Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended December 31, 2012				
Segmented Information ($000's)	**Drilling Fluids** [2]	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**85,938**	**4,128**	**5,137**	**(175)**	**95,028**
Cost of sales	**66,883**	**3,756**	**3,163**	**(175)**	**73,627**
Gross margin	**19,055**	**372**	**1,974**	**-**	**21,401**
Income before taxes	**3,583**	**(149)**	**759**	**-**	**4,193**
EBITDAC [1]	**8,721**	**389**	**940**	**-**	**10,050**

	Three Months Ended December 31, 2011				
Segmented Information ($000's)	Drilling Fluids [2]	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	128,297	5,604	5,115	(223)	138,793
Cost of sales	93,715	4,697	3,304	(223)	101,493
Gross margin	34,582	907	1,811	-	37,300
Income before taxes	19,350	472	743	-	20,565
EBITDAC [1]	22,440	1,063	923	-	24,426

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Results from PureChem operations for the three months ended December 31, 2012 and 2011, have been included in the Drilling Fluids segment.*

	Year Ended December 31, 2012				
Segmented Information ($000's)	**Drilling Fluids** [2]	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**435,271**	**17,881**	**18,972**	**(825)**	**471,299**
Cost of sales	**333,075**	**17,381**	**11,501**	**(825)**	**361,132**
Gross margin	**102,196**	**500**	**7,471**	**-**	**110,167**
Income before taxes	**42,227**	**(1,225)**	**2,888**	**-**	**43,890**
EBITDAC [1]	**58,731**	**2,182**	**4,015**	**-**	**64,928**

	Year Ended December 31, 2011				
Segmented Information ($000's)	Drilling Fluids [2]	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	423,192	19,432	17,403	(770)	459,257
Cost of sales	309,155	16,448	10,988	(749)	335,842
Gross margin	114,037	2,984	6,415	(21)	123,415
Income before taxes	57,150	1,655	2,361	(21)	61,145
EBITDAC [1]	69,424	3,809	3,087	-	76,320

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Results from PureChem operations for the twelve months ended December 31, 2012 and 2011, have been included in the Drilling Fluids segment.*

Drilling Fluids Segment

For the three months ended December 31, 2012, revenue from the Drilling Fluids segment totalled $85.9 million compared to $128.3 million for the three months ended December 31, 2011, representing a decrease of $42.4 million or 33%. For the three months ended December 31, 2012, revenue per Operating Day for the Drilling Fluids Segment totalled $5,073 compared to $5,419 for the three months ended December 31, 2011. In 2012, revenue from the Drilling Fluids Segment totalled $435.3 million as compared to $423.2 million in 2011 representing an increase of $12.1 million or 3% on a year over year basis. In 2012, revenue per Operating Day for the Drilling Fluids Segment totalled $5,682 compared to $5,179 in 2011. Average revenue per Operating Day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order to be successfully drilled and cased. For additional details regarding the Company's market share and Operating Days for the year ended December 31, 2012, refer to "Overview of Financial and Operational Results" and "Results for the Periods" sections above. Gross margins for the Drilling Fluids segment for the three and twelve months ended December 31, 2012 were $19.1 million and $102.2 million respectively compared to $34.6 million and $114.0 million in the prior year. EBITDAC for the three and twelve months ended December 31, 2012 was $8.7 million and $58.7 million respectively compared to $22.4 million and $69.4 million in the prior year.

Trucking Segment

Revenue from the Trucking segment, gross of intercompany eliminations, was $4.1 million for the three month period ended December 31, 2012, as compared to $5.6 million during last year representing a decrease of $1.5 million or 26%. In 2012, the Trucking segment had total revenue, gross of intercompany eliminations, of $17.9 million as compared to $19.4 million during 2011 representing a decrease of $1.5 million or 8%. Gross margin for the Trucking segment was $0.4 million or 9% of revenue for the three months ended December 31, 2012, as compared to $0.9 million or 16% of revenue during the prior year. In 2012, gross margin for the Trucking segment was $0.5 million or 3% of revenue as compared to $3.0 million or 15% of revenue during the prior year. EBITDAC for the three and twelve months ended December 31, 2012 was $0.4 and $2.2, respectively, compared to $1.1 million and $3.8 million in the prior year.

Environmental Services Segment

Revenue from the Environmental Services segment was $5.1 million for the three month period ended December 31, 2012, consistent with $5.1 million generated for the same period of 2011. In 2012, revenue for the Environmental Services totalled $19.0 million as compared to $17.4 million in 2011, representing an increase of $1.6 million or 9%. During the fourth quarter of 2012, gross margin from the Environmental Services segment was $2.0 million or 38% of revenue as compared to $1.8 million or 35% for the same period during 2011. In 2012, the gross margin from the Environmental Services Segment was $7.5 million or 39% of revenue as compared to $6.4 million or 37% in 2011. Clear has continued to market its services aggressively in its pursuit of more complex opportunities in the oilsands and horizontal drilling and has capitalized on new regulations in Alberta that have required additional environmental disclosures and procedures by operators.

QUARTERLY FINANCIAL SUMMARY

($000's, except per share amounts)	Three Months Ended			
	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Revenue	**95,028**	115,585	104,129	156,557
Gross margin [1]	**21,401**	27,885	23,523	37,358
Net income	**2,847**	7,952	3,368	13,702
per share– basic	***0.05***	*0.14*	*0.06*	*0.25*
per share– diluted	***0.05***	*0.14*	*0.06*	*0.24*
EBITDAC [1]	**10,050**	17,326	12,793	24,759
per share– basic	***0.18***	*0.31*	*0.23*	*0.45*
per share– diluted	***0.17***	*0.30*	*0.22*	*0.43*
Funds Flow From Operations [1]	**8,603**	13,073	8,730	17,828
per share– basic	***0.15***	*0.23*	*0.16*	*0.32*
per share– diluted	***0.15***	*0.23*	*0.15*	*0.31*
Dividends declared	**9,029**	8,367	8,339	7,741
per share	***0.16***	*0.15*	*0.15*	*0.14*
Shares Outstanding				
End of period	**56,847,853**	55,873,073	55,681,662	55,381,861
Weighted average – basic	**56,193,530**	55,749,999	55,567,426	55,255,804
Weighted average – diluted	**57,792,055**	57,356,168	57,327,933	57,102,551

($000's, except per share amounts)	Three Months Ended			
	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011
Revenue	138,793	121,958	86,967	111,539
Gross margin [1]	37,300	30,520	22,971	32,624
Net income	14,873	9,501	5,506	11,815
per share – basic [2]	*0.27*	*0.17*	*0.10*	*0.22*
per share - diluted [2]	*0.26*	*0.17*	*0.10*	*0.21*
EBITDAC [1]	24,426	18,601	12,501	20,792
per share – basic [2]	*0.44*	*0.34*	*0.23*	*0.38*
per share - diluted [2]	*0.43*	*0.33*	*0.22*	*0.37*
Funds Flow From Operations [1]	22,705	17,315	9,878	18,765
per share – basic [2]	*0.41*	*0.32*	*0.18*	*0.34*
per share - diluted [2]	*0.40*	*0.31*	*0.18*	*0.34*
Dividends declared	7,156	6,582	6,573	5,807
per share – basic [2]	*0.13*	*0.12*	*0.12*	*0.11*
Shares Outstanding				
End of period	55,138,435	54,842,035	54,803,235	54,479,985
Weighted average – basic	55,001,647	54,834,583	54,712,282	54,425,742
Weighted average – diluted	56,870,630	56,244,549	56,123,443	55,809,750

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.*

Seasonality of Operations

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. As the drilling fluids business expands in the US and as the production and specialty chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

SELECTED ANNUAL INFORMATION

	Year Ended December 31,				
($000's, except per share amounts)	**2012**	% Change	2011	% Change	2010
Revenue	**471,299**	3%	459,257	84%	249,116
Gross margin [1]	**110,167**	-11%	123,415	80%	68,406
Gross margin percentage of revenue [1]	**23%**		27%		27%
Income before taxes	**43,890**	-28%	61,145	93%	31,754
per share – basic [2]	***0.79***	*-29%*	*1.12*	*60%*	*0.70*
per share - diluted [2]	***0.76***	*-30%*	*1.08*	*59%*	*0.68*
Net income	**27,869**	-33%	41,695	22%	34,309
per share – basic [2]	***0.50***	*-34%*	*0.76*	*0%*	*0.76*
per share - diluted [2]	***0.49***	*-34%*	*0.74*	*0%*	*0.74*
EBITDAC [1]	**64,928**	-15%	76,320	84%	41,481
per share – basic [2]	***1.17***	*-16%*	*1.39*	*51%*	*0.92*
per share - diluted [2]	***1.13***	*-16%*	*1.35*	*52%*	*0.89*
Funds Flow From Operations [1]	**48,234**	-30%	68,663	74%	39,561
per share – basic [2]	***0.87***	*-30%*	*1.25*	*44%*	*0.87*
per share - diluted [2]	***0.84***	*-31%*	*1.22*	*44%*	*0.85*
Dividends declared	**33,476**	28%	26,118	86%	14,040
per share [2]	***0.60***	*25%*	*0.48*	*55%*	*0.31*

	As At December 31,				
Financial Position ($000's)	**2012**	% Change	2011	% Change	2010
Net working capital [4]	**114,899**	-25%	153,660	350%	34,117
Total assets	**354,642**	-8%	385,351	34%	287,870
Long-term financial liabilities [3][4]	**71,575**	-26%	96,779	1734%	5,278
Shareholders' equity	**215,420**	6%	204,060	14%	179,017

Notes:

[1] *Refer to the "Non-GAAP Measures" for further detail.*

[2] *Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.*

[3] *Includes long-term portion of Senior Facility, vehicle financing, committed loans, and finance leases.*

[4] *On December 21, 2011, the Company entered into the "Committed Facility. In conjunction with the new Committed Facility, the Company repaid its demand operating facility and other outstanding long-term committed loan facilities balances on December 23, 2011. The entire amount outstanding under the Committed Facility is classified as long-term debt.*

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, the Company had net working capital of $114.9 million (December 31, 2011 - $153.7 million) representing a decrease of $38.8 million. The year-over-year decline in working capital is due to the overall decline in quarterly activity on a year-over-year basis.

On October 2, 2012, the Company completed an amendment to its existing Senior Facility. Subsequent to year end, the Senior Facility was further amended on February 26, 2013 pursuant to the JACAM Acquisition. The Amended Senior Facility includes both the JACAM Acquisition Bridge Facility and the previous Senior Facility.

JACAM Acquisition Bridge Facility

The JACAM Acquisition Bridge Facility is a bridge facility obtained by the Company in the amount of $160.0 million for the sole purpose of financing the JACAM Acquisition. The JACAM Acquisition Bridge Facility has a one year term and is repayable in full by February 26, 2014. The JACAM Acquisition Bridge Facility incurred commitment and other fees of $1.7 million payable on the date of draw. Amounts drawn on the JACAM Acquisition Bridge Facility incur interest at the Banker's Acceptance Rate of 3.00% which rises in quarterly increments up to 5.50%. The JACAM Acquisition Bridge Facility is also subject to quarterly duration fees on amounts outstanding on the JACAM Acquisition Bridge Facility rising from 25 basis points to 75 basis points.

The Company intends to repay the JACAM Acquisition Bridge Facility with a proposed private placement financing of senior unsecured notes following the JACAM Acquisition.

Amended Senior Facility

With the exception of the change to the Company's debt covenants detailed below, the terms and conditions of Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

The Amended Senior Facility allows the Company to borrow up to $150.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility now has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30.0 million to a maximum borrowing of $180.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Amended Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25%, or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%. The applicable pricing margin are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The pricing on the Amended Senior Facility is not impacted by the amounts outstanding on the JACAM Acquisition Bridge Facility.

The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

In conjunction with the Amended Senior Facility, the following are some of the key financial covenants imposed on CES:

- The ratio of Total Funded to EBITDA on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 3.50 to 1.00 as calculated on a rolling four-quarter basis while the JACAM Acquisition Bridge Facility remains outstanding. Following repayment of the JACAM Acquisition Bridge Facility, the Senior Funded Debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis. The proposed private placement financing of senior unsecured notes as noted above would not be included in the calculation of Senior Funded Debt.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. For purposes of this calculation, the JACAM Acquisition Bridge Facility is excluded in the computation of current liabilities while it remains outstanding.
- The quarterly ratio of EBITDA to interest expense must be less than 3:00 to 1:00 calculated on a rolling four-quarter basis.

As at December 31, 2012, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

At December 31, 2012, CES had a net draw of $67.4 million on its Amended Senior Facility (December 31, 2011 - $93.4 million). The maximum available draw on the $150.0 million Amended Senior Facility at December 31, 2012, based on eligible accounts receivable, inventory, and certain capital asset balances, was $98.2 million (December 31, 2011 - $120.0 million).

In addition to the above Amended Senior Facility, CES has the following loan and leasing facilities:

- Bank leasing facility of which the Company had an outstanding balance owing on these lease facilities of $2.9 million, as compared to $2.7 million at December 31, 2011. The Company's floating interest rate leases are for terms ranging to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%, resulting in monthly payments of approximately $0.06 million. The Company's fixed interest rate leases are for terms ranging to March 2016 with interest on the Company's lease facilities at a weighted average rate of 4.93%, resulting in monthly payments of approximately $0.1 million.
- Vehicle finance leases are secured by each related vehicle and incur interest at rates up to 9.07%, with a weighted

average rate of approximately 6.18%, and have termination dates ranging from February 2013 through April 2017. At December 31, 2012, outstanding vehicle loans totalled $2.5 million as compared to $2.4 million at December 31, 2011.

- Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 7.74%, with a weighted average rate of approximately 5.90%, and have termination dates ranging from January 2013 through October 2016. At December 31, 2012, outstanding vehicle loans totalled $2.4 million as compared to $1.4 million at December 31, 2011.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2012:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	39,562	3,619	-	-	-	**43,181**
Dividends payable [2]	3,127	-	-	-	-	**3,127**
Income taxes payable	-	7,888	-	-	-	**7,888**
Long-term debt at fixed interest rates [3]	173	841	939	409	-	**2,362**
Long-term debt at floating interest rates [3]	-	-	-	67,993	-	**67,993**
Finance lease obligations at fixed interest rates [3]	132	674	846	788	-	**2,440**
Finance lease obligations at floating interest rates [3]	351	1,433	927	256	-	**2,967**
Office operating leases	412	1,870	1,702	3,700	-	**7,684**
Total	43,757	16,325	4,414	73,146	-	**137,642**

[1] Payments denominated in foreign currencies have been translated at the respective period end exchange rate
[2] Dividends declared as of December 31, 2012
[3] Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

In 2013, the Company intends to repay the JACAM Acquisition Bridge Facility by raising an unsecured bond ("Bond Offering"). The market for similar bond offerings appears to be robust, however, in the event that CES' is unable to execute on the Bond Offering it may have to look at alternative sources of financing including possibly raising additional equity or pursuing other forms of unsecured debt. The JACAM Acquisition Bridge Facility has increased CES's exposure to its syndicate of lenders. In the event CES' lenders are unable to, or chooses not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained as access to the Amended Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under its debt facilities.

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans and commitments. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. In the event that it is required, based on the market conditions at the time, it may be difficult to issue additional equity or increase credit capacity and the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions on CES. CES continues to focus on evaluating credit capacity, credit counterparties, and liquidity to ensure its ability to be able to meet its ongoing commitments and obligations.

Cash Flows from Operating Activities

For the three months ended December 31, 2012, cash flow from operating activities was an inflow of $37.4 million compared to an outflow of $13.0 million during the prior year. Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended December 31, 2012, Funds Flow From Operations was an $8.6 million inflow as compared to a $22.7 million inflow during 2011. The decline in Funds Flow From Operations for the fourth quarter is primarily a result of the decline in overall Canadian activity levels as noted above as well as the Company being fully taxable in both Canada and the US during 2012.

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**37,416**	(13,023)	**87,021**	(2,293)
Adjust for:				
Change in non-cash operating working capital	**(28,813)**	35,728	**(38,787)**	70,956
Funds Flow From Operations [1]	**8,603**	22,705	**48,234**	68,663

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.

Cash Flows from Investing Activities

For the three months ended December 31, 2012, net cash outflows from investing activities totalled $14.4 million compared to $3.9 million for the three months ended December 31, 2011.

For the three months ended December 31, 2012, $2.5 million was spent on property and equipment (net of $1.4 million in vehicle financing and leases). CES had $0.06 million of additions related to Maintenance Capital and $3.8 million of additions related to Expansion Capital gross of vehicle financing. Expansion Capital expenditures in Q4 2012 were down from more recent quarters as several larger expansion projects previously undertaken during the year were completed. Notable expansion additions during the quarter ended December 31, 2012 include $1.4 million for warehouse and facilities, $1.5 million for vehicles, $0.6 million for field equipment, and $0.3 for other expansion additions.

For the year ended December 31, 2012, $16.3 million was spent on property and equipment (net of $3.8 million in vehicle financing lease), compared to $17.0 million in 2011 (net of $2.9 million in vehicle financing lease), representing a decrease of $0.7 million. CES had $0.9 million of additions related to Maintenance Capital and $19.2 million of additions related to Expansion Capital gross of vehicle financing. Notable expansion additions in 2012 included $5.1 million for warehouse and facilities, $3.9 million for vehicles, $3.7 million on the purchase of tanks, $2.0 million for trucks and trailers, $1.8 million for field equipment, and $2.7 million for other expansion additions.

Expansion Capital expenditures in 2012 were higher than historical norms as a result of a number of new capital projects undertaken during the year including the ongoing expansion and build out of the Company's PureChem facilities; the expansion to the tank farm and the build-out of an invert blending facility in Edson, AB, expansion of the Company's PureChem facility in Carlyle, SK, the establishment of three new warehouse facilities and fluids storage facilities to service the Eagle Ford shale in Texas, the Utica shale in Ohio, the Bakken in North Dakota and the other necessary ancillary and supporting equipment required to support these facilities and the corresponding expanded operations.

Details of investment made in property and equipment are as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Expansion Capital [1]	**3,814**	4,801	**19,216**	17,514
Maintenance Capital [1]	**59**	1,278	**855**	2,375
Total investment in property and equipment	**3,873**	6,079	**20,071**	19,889
Vehicle financing and leases	**(1,363)**	(929)	**(3,799)**	(2,915)
Capital expenditures	**2,510**	5,150	**16,272**	16,974
Change in non-cash investing working capital	**43**	(1,048)	**1,499**	(841)
Cash used for investment in property and equipment	**2,553**	4,102	**17,771**	16,133

Notes:
[1] Refer to the "Operational Definitions" for further detail.

In general, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and earnings generated, and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment.

Cash Flows from Financing Activities

For the twelve month period ended December 31, 2012, cash flow from financing activities totalled a cash outflow of $56.7 million compared to a cash inflow of $22.3 million during 2011. For the three months ended December 31, 2012, cash flow from financing activities totalled a cash outflow of $23.0 million compared to a cash inflow of $17.1 million during the comparative prior year period. For the three month period ended December 31, 2012, CES repaid $1.1 million of its long-term debt balances, paid dividends to shareholders totalling $8.7 million, and repaid $14.2 million on its Senior Facility. This was offset by cash proceeds of $0.99 million relating to the exercise of stock options.

CES calculated Distributable Earnings based on Funds Flow From Operations and the Payout Ratio based on the level of dividends declared as follows:

	Three Months Ended December 31,		Years Ended December 31,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**37,416**	(13,023)	**87,021**	(2,293)
Adjust for:				
Change in non-cash operating working capital	**(28,813)**	35,728	**(38,787)**	70,956
Funds Flow From Operations [(1)]	**8,603**	22,705	**48,234**	68,663
Maintenance Capital [(2)]	**(59)**	(1,278)	**(855)**	(2,375)
Distributable Earnings [(1)]	**8,544**	21,427	**47,379**	66,288
Dividends declared	**9,029**	7,156	**33,476**	26,118
Payout Ratio [(1)]	**106%**	33%	**71%**	39%

Notes:

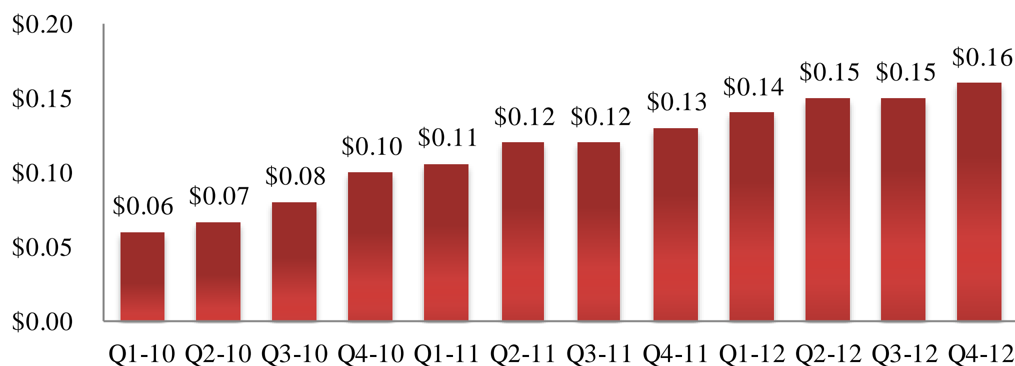
[1] *Refer to the "Non-GAAP Measures" for further detail.*

[2] *Refer to the "Operational Definitions" for further detail.*

Distributable Earnings were $8.5 million for the three months ended December 31, 2012, as compared to $21.4 million for the same period in 2011. For the year ended December 31, 2012, Distributable Earnings were $47.4 million versus $66.3 million for the same period in 2011. The year-over-year decreases are representative of the lower activity levels during 2012 as compared to 2011. During the three months ended December 31, 2012, CES declared monthly dividends of $0.05 per share for October, and $0.055 per share for November and December for a total of $0.16 per share for the quarter.

During the fourth quarter of 2012, the Payout Ratio was 106% compared to 33% for the fourth quarter of 2011. For 2012, the Payout Ratio has averaged 71% as compared to 39% in 2011. The year-over-year increase in the Payout Ratio is primarily a result of higher dividends declared by the Company in the current year as well as the Company being fully taxable in both the US and Canada during 2012.

Throughout the course of the year, the actual Payout Ratio varies with the seasonality of CES' funds flow from operations. Periods of higher activity will cause the Payout Ratio to decrease, and likewise, lower activity periods will cause the Payout Ratio to increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, dividends may be funded through CES' surplus cash reserves or by accessing CES' credit facilities.



[1]*Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011, all historical per share data has been retroactively adjusted to reflect the stock split.*

Dividend Policy

During the fourth quarter of 2012, CES declared monthly dividends of $0.05 per share for October, and $0.055 per share for November and December for a total of $0.16 per share for the quarter. This compares to a total of $0.13 per share for the comparable quarter in 2011. During the year ended December 31, 2012, CES declared total dividends per common share of $0.60 (December 31, 2011 – $0.476).

The Company declared dividends to holders of common shares for the year ended December 31, 2012, as follows:

$000's except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.045	**2,483**
February	Feb 29	Mar 15	0.045	**2,489**
March	Mar 30	Apr 13	0.050	**2,769**
April	Apr 30	May 15	0.050	**2,776**
May	May 31	Jun 15	0.050	**2,779**
June	Jun 29	Jul 13	0.050	**2,784**
July	Jul 31	Aug 15	0.050	**2,785**
August	Aug 31	Sep 14	0.050	**2,788**
September	Sep 28	Oct 15	0.050	**2,794**
October	Oct 31	Nov 15	0.050	**2,800**
November	Nov 30	Dec 14	0.055	**3,102**
December	Dec 31	Jan 13	0.055	**3,127**
Total dividends declared during the year			$0.600	**33,476**

Through the course of the year, monthly dividends declared as a proportion of net income and cash flow from operations will vary significantly based on the activity levels of the Company's operations. During periods of higher activity, dividends declared as a percentage of net income and cash flow from operations will decrease, and likewise, during lower activity periods dividends declared as a percentage of net income and cash flow from operations will increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, dividends may be funded through CES' surplus cash reserves or by accessing CES' credit facilities.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, CES intends to continue to make cash dividends to shareholders, these dividends are not guaranteed. In

addition, future expansion, investments and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a large proportion of cash flow from operations being paid out as a dividend as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and earnings generated.

Subsequent to December 31, 2012, CES declared a monthly dividend of $0.055 per common share to shareholders of record at January 31, 2013 and February 28, 2013 for the months of January and February 2013 respectively.

Shareholders' Equity
As of December 31, 2012, CES had a total of 56,847,853 common shares outstanding. As of the date of this MD&A, following the JACAM Acquisition, CES had a total of 62,420,499 common shares outstanding.

Stock-based Compensation
As at December 31, 2012, a total of 5,684,785 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan of which 1,965,588 remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At December 31, 2012, a total of 2,920,088 Share Rights were outstanding (December 31, 2011 – 2,987,602) at a weighted average exercise price of $7.65 (assuming all SRIP's are exercised at their respective original exercise price) of which 962,500 were exercisable. As of the date of this MD&A, an aggregate of 2,834,588 Share Rights remaining outstanding, of which 909,001 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At December 31, 2012, a total of 741,510 Restricted Share Units were outstanding (December 31, 2011 – 310,030) at a weighted average price of $11.57, none of which were vested. As of the date of this MD&A, an aggregate of 748,618 Restricted Share Units remain outstanding, none of which have vested.

c) Option Plan, formerly referred to as the Partnership Unit Option Plan
At December 31, 2012, a total of 57,600 (December 31, 2011 – 115,000) options were outstanding at a weighted average exercise price of $2.79, of which all 57,600 were exercisable at December 31, 2012 at a weighted average exercise price of $2.79. As of the date of this MD&A, there were a remaining 25,000 options outstanding.

Commitments
At December 31, 2012, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Office and facility rent	2,282	1,702	1,547	1,299	854	**7,684**

Payments denominated in foreign currencies have been translated at the respective period end exchange rates

As of the date of this document, given its financial position, CES anticipates it will be able to meet these commitments as necessary.

The Company is involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation it is aware of will not have a material adverse impact on the Company's financial position or results of operations and therefore the commitment table does not include any commitments for any outstanding litigation and any potential claims.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and Judgments
As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the possible disclosure of contingent assets and liabilities at the date of the Consolidated Financial

Statements and the reported amounts of revenue and expenses for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' Consolidated Financial Statements relate to, but are not limited to, the following:

Accounts receivable
The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts.

Inventories
The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed quarterly for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Property and equipment
Management estimates the useful lives and residual value of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at the end of each reporting period or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. The recoverability of the Company's asset carrying values is assessed at the CGU level. The determination of the CGUs is subject to management judgments taking into consideration: the nature of the underlying business operations, geographical proximity of operations, shared infrastructure, and exposure to market risk.

The assessment of any impairment of property and equipment, including intangible assets and goodwill, is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated using future cash flow projections, discounted to their present value, expected to arise from the CGU to which the goodwill relates. The required valuation methodology and underlying financial information that is used to determine value in use requires significant judgments to be made by management. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. The estimated future cash flows are dependent upon a number of factors including, among others, the levels of drilling activity within the oil and natural gas industry. Actual drilling activity cannot be predicted with certainty and, as such, actual results will differ from these estimates.

Derivatives
The fair value of outstanding derivatives is based on forward curves as at the reporting date and will differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in profit or loss. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of stock options granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, actual and expected life of the options, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading history excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that vest. Consequently, the actual stock-based compensation expense will vary from the amount estimated.

Restricted share units
Management makes an estimate of the number of restricted shares that will be forfeited and the rate is adjusted to reflect the actual number of restricted shares that vest. Consequently, the actual stock based compensation expense associated with the restricted share units will vary from the amount estimated.

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their respective tax bases based on the enacted or substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact earnings.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, state, and provincial jurisdictions in Canada, the United States, and other foreign jurisdictions. Corporate income tax and other returns are filed, and current income tax provisions are recorded, based upon the transactions entered into and recorded by the Company and are based on the estimates and calculations used by the Company during the normal course of business and in the preparation of these returns. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit which could result in adjustments and potential litigation by the tax authorities, which in turn could affect the Company's tax provisions in future years. As applicable, the Company maintains provisions for uncertain tax positions that it believes are appropriate. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors at the reporting period. The Company reviews the adequacy of these provisions at the end of each reporting period and adjusts them as required. However, it is possible that, at some future date, current income liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments or litigation with tax authorities. These differences could materially impact earnings.

Commitments and contingencies
Management estimates the inputs used in determining the various commitments and contingencies accrued in the consolidated statement of financial position.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In May 2011, the International Accounting Standards Board ("IASB") released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below. The adoption of these standards is not expected to have a significant impact on the Company's financial statements.

- IFRS 10, "*Consolidated Financial Statements*" ("IFRS 10") replaces IAS 27, "*Consolidated and Separate Financial Statements*" ("IAS 27") and Standing Interpretations Committee ("SIC") 12, "*Consolidation – Special Purpose Entities*". IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent;

- IFRS 11, "*Joint Arrangements*" ("IFRS 11") replaces IAS 31, "*Interest in Joint Ventures*" ("IAS 31") and SIC 13, "*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*". This standard requires a party to assess its rights and obligations from the arrangement in order to determine the type of joint arrangement. The choice of proportionate consolidation accounting is removed for joint ventures (formerly jointly controlled entities) as equity accounting is required;

- IFRS 12, "*Disclosure of Interest in Other Entities*" ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28, "*Investments in Associates*". It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities;

- IFRS 13, "*Fair Value Measurement*" ("IFRS 13") provides a consistent and less complex definition of fair value, establishes a single source for determining fair value, and introduces consistent requirements for disclosures related to fair value measurement;

- There have been amendments to existing standards, including IAS 1, "*Presentation of Financial Statements*" ("IAS 1"), IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 1 (effective for annual periods beginning on or after July 1, 2012), has been amended to require companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12.

As of January 1, 2015, the Company will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the IASB project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's financial statements will not be known until the project is complete.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be reported by CES is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of CES, to allow timely decisions regarding required public disclosure by CES in its annual filings, interim filings or other reports filed or submitted in accordance with Canadian securities legislation.

At the end of the period covered by this MD&A, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' disclosure controls and procedures, as detailed by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in CES' annual filings and interim filings and other reports filed or submitted in accordance with Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of CES, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow decisions regarding required disclosure.

Internal Controls over Financial Reporting

Management of CES is responsible for establishing and maintaining internal controls over financial reporting for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and effectiveness of CES' internal control controls over financial reporting as at December 31, 2012. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2012.

On December 31, 2012, CES acquired all of the business assets of Mega Fluids and began consolidating the operations of Mega Fluids into CES. Management excluded this business from its evaluation of the effectiveness of CES' internal control over financial reporting as at December 31, 2012. The Company has not recognized any net income attributable to this business for the year ended December 31, 2012 given that that the effective date of the acquisition was December 31, 2012. Mega Fluids' aggregate total assets represented approximately 3% of CES' consolidated total assets as at December 31, 2012.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

It should be noted that while the President and Chief Executive Officer and Chief Financial Officer believe that CES' disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are

effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2012 Annual Report, CES' Annual Information Form dated March 8, 2012 in respect of the year ended December 31, 2011, and CES' Information Circular in respect to the June 14, 2012 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

The drilling fluids business is exposed to the cyclical nature of the drilling industry. CES is directly affected by fluctuations in the level and complexity of oil and natural gas exploration and development activity carried on by its clients. In Canada, drilling activity is seasonal and, in turn, throughout North America it is directly affected by a variety of factors including: weather; oil, natural gas, and natural gas liquids prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in North America and, in turn, demand for CES' products and services.

Crude oil prices have weakened over the last year and are likely to continue to see volatility in the face of macro-economic forces. In addition, many operators in the WCSB have been challenged by crude oil pricing differentials versus world benchmarks such as Brent and West Texas Intermediate. Natural gas prices have remained weak since late 2008 and declined to ten year lows in Q2. The back half of 2012 saw a modest recovery in natural gas prices in North America. In the face of high costs, weaker commodity prices, and reduced access to the capital markets, operators in Canada have scaled back activity while in the US overall activity has remained flat. Drilling activity could slow further if operators' access to capital remains challenged or the price of crude oil falls further or the price of natural gas does not recover to economic levels.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. As the drilling fluids business expands in the US and as the production chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

CES is very optimistic about its growth prospects in the production and specialty chemical space through its PureChem and JACAM business units. The revenue and general market consumption of consumable chemicals in these sub-segments is more stable and predictable than the drilling market, and by all accounts the overall market continues to grow. However, CES is a relative new entrant and is much smaller than the larger more established competitors in this space. This presents opportunities as well as risks as to the overall success CES may achieve in the production and specialty chemical space.

The ability of CES to sell and expand its services will also depend upon the ability to attract qualified personnel as needed. Over the past few years, the demand for skilled oilfield employees and drilling fluid technicians has been high and the supply has been limited. The unexpected loss of CES' key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on CES' results. CES addresses this risk by:

- attracting well trained and experienced professionals;
- offering competitive compensation at all levels;
- ensuring a safe working environment with clearly defined standards and procedures; and
- offering its employees both internal and external training programs.

CES takes its health, safety, and environmental responsibilities seriously and has instituted standards, policies, and procedures to address these risks. In addition, CES maintains insurance policies with respect to its operations providing coverage over what it considers to be material insurable risks.

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and

timing of exposure to individual customers, reviewing its credit procedures on a regular basis, and reviewing and actively following up on older accounts. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if low natural gas prices persist, or if crude oil prices fall, or volatile capital markets return, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk.

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. As an example, during 2009 and 2010, changes were announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

With the JACAM Acquisition, CES' US footprint and size of operations continues to increase. US expansion provides CES with upside potential and reduces certain risks through diversification of operations. It also exposes the Company to additional specific risks including: integration risks of the acquired businesses; currency risk with added exposure to the US dollar; regulatory risks associated with environmental concerns; and the future impact of increased regulatory requirements are examples of specific US risks faced by the Company.

The volatility in the financial markets over the past three to four years has impacted the general availability of both credit and equity financing in the marketplace. The current sovereign debt issues ongoing in Europe and the generally tepid economic forecasts for the North American and world economy result in continued uncertainty. It may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. In 2013, the Company intends to repay the JACAM Acquisition Bridge Facility by raising an unsecured bond. The market for similar bond offerings appears to be robust, however, in the event that CES' is unable to execute on the Bond Offering, it may have to look at alternative sources of financing including possibly raising additional equity or pursuing other forms of unsecured debt. The JACAM Acquisition Bridge Facility has increased CES's exposure to its syndicate of lenders. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Amended Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under its debt facilities.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, state, and provincial jurisdictions in Canada, the United States, and other foreign jurisdictions. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit by the Internal Revenue Services in the United States, the Canadian Revenue Agency in Canada, other provincial and state tax authorities, and other governmental tax authorities in foreign jurisdictions. It is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. These differences could materially impact earnings.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the amendments as announced are

intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion. It should be noted that in Q4 2011 CES received a letter from the Canada Revenue Agency ("CRA") requesting information in order to review the Conversion and CES is in the process of providing information requested by the CRA.

Reference should be made to CES' Annual Information Form dated March 8, 2012 for the period ended December 31, 2011, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

OUTLOOK

Q4 2012 was a difficult quarter for CES with a number of events as described above that contributed to weaker quarterly results. However, with a shift in activity in the US to new work in the Eagle Ford; the addition of significant work in the Mississippi Lime as a result of the Mega Fluids acquisition; and a pick-up of activity in the other regions the US drilling fluids business is back on track. In Canada, a combination of the ProDrill acquisition and a pick-up of activity in the traditionally robust winter drilling season has Canadian drilling fluids also back on track. With respect to the production and specialty chemical business, PureChem closed out 2012 with annual sales of approximately $24 million and has begun to make a positive EBITDAC contribution. In the US, the Company has made a significant break-through into the market with the JACAM Acquisition.

Taking into consideration the JACAM Acquisition, and based on the premise that 2013 drilling activity as a whole across the Canadian and US markets will remain fairly consistent with activity levels achieved in 2012, CES' expected range of consolidated gross revenue for 2013 will be approximately $580 million to $620 million and expected consolidated EBITDAC will be approximately $95 million to $105 million.

Going forward, CES sees significant growth opportunities in the production and specialty chemical space through both its PureChem and JACAM divisions. CES has vertically integrated manufacturing capabilities with unutilized throughput at both its Carlyle and Sterling plants. CES has a full suite of technically advanced solutions for completions and stimulations, production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. These markets are all growing on a year-over-year basis and CES believes over time it can grow its market share within each of these sub-segments.

In the Company's drilling fluids business, Q4 2012 results reflect the decrease in activity over the comparable period in 2011. Despite the slowdown the drilling fluids segment, on a year-over-year basis, it has experienced increases in revenue per day as the industry trend to drill more complex, deeper, and longer horizontal wells continues. CES has benefited from this trend as these types of wells require more fluids in general, but also more technically advanced fluids in order to be successfully drilled and cased. The result is the drilling fluids portion of the typical well cost has increased, while the average well cost has also increased. Based on the reported well economics of the different North American play types and the reported drilling plans of operators, this trend looks to continue. CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share in North America. As a larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times, and costs, CES will leverage its superior customer service and its unique products to demonstrate its superior performance. CES believes that its unique value proposition in this increasingly complex drilling environment makes it the premier independent drilling fluids provider in North America.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business and has maintained consistently strong results. The Environmental Services division has focused on expanding its operational base in the WCSB and is pursuing opportunities in the oil sands and horizontal drilling markets.

Despite the decrease in activity in the WCSB, the EQUAL Transport division has remained profitable. It is expected this business will continue to be instrumental in supporting the core businesses and be economically viable.

As challenges faced by oil and gas producers become more complex, advanced technologies are becoming increasingly important in driving success for operators. CES will continue to invest in research and development to be a leader in technology advancements in the drilling fluids and production chemical markets. With the addition of JACAM's state of the art laboratory in Sterling, Kansas, CES now operates four separate lab facilities across North America which also includes, Carlyle, Saskatchewan; Calgary, Alberta; and Houston, Texas. CES also leverages third party partner relationships to drive innovation in the consumable chemicals business.

On a corporate level, CES continually assesses integrated business opportunities that will keep CES competitive and enhance profitability. However, all acquisitions must meet our stringent financial and operational metrics. CES will also closely manage its dividend levels and capital expenditures in order to preserve its financial strength, its low capital re-investment model and its strong liquidity position.

ADDITIONAL INFORMATION

Additional information related to CES can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Information is also accessible on CES's web site at www.canadianenergyservices.com.

MANAGEMENT'S REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of three independent, non-management directors, is responsible to review these statements with management and the auditors and to report to the Board of Directors. The Board of Directors is responsible to review and approve the consolidated financial statements.

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 7, 2013

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 7, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Energy Services & Technology Corp.:

We have audited the accompanying consolidated financial statements of Canadian Energy Services & Technology Corp. which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Energy Services & Technology Corp. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"Deloitte LLP"*

Chartered Accountants

March 7, 2013
Calgary, Canada

Canadian Energy Services & Technology Corp.
Consolidated Statements of Financial Position
(stated in thousands of Canadian dollars, except per share amounts)

	As at	
	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Accounts receivable	**107,112**	166,007
Financial derivative asset (note 19)	**41**	-
Inventory (note 5)	**61,382**	59,376
Prepaid expenses	**4,164**	5,172
	172,699	230,555
Property and equipment (note 6)	**54,667**	43,543
Intangible assets (note 7)	**15,921**	14,425
Deferred income tax asset (note 13)	**272**	602
Goodwill (note 7)	**111,083**	96,226
	354,642	385,351
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**43,181**	71,122
Financial derivative liability (note 19)	**-**	183
Dividends payable (note 17)	**3,127**	2,481
Income taxes payable (note 13)	**7,888**	-
Current portion of long-term debt (note 8)	**1,014**	747
Current portion of finance lease obligations (note 9)	**2,590**	2,362
	57,800	76,895
Long-term debt (note 8)	**68,758**	94,064
Finance lease obligations (note 9)	**2,817**	2,715
Deferred income tax liability (note 13)	**9,847**	7,617
	139,222	181,291
Commitments (note 18)		
Shareholders' equity		
Common shares (note 14)	**215,571**	200,412
Contributed surplus (note 16)	**8,051**	4,135
Retained earnings (deficit)	**(3,285)**	2,322
Accumulated other comprehensive loss	**(4,917)**	(2,809)
	215,420	204,060
	354,642	385,351

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

Canadian Energy Services & Technology Corp.
Consolidated Statements of Comprehensive Income
(stated in thousands of Canadian dollars, except per share amounts)

	Years Ended December 31,	
	2012	2011
Revenue	**471,299**	459,257
Cost of sales (notes 5 and 10)	**361,132**	335,842
Gross margin	**110,167**	123,415
General and administrative expenses (note 11)	**62,636**	58,693
Operating profit	**47,531**	64,722
Finance costs (note 12)	**3,641**	3,577
Income before taxes	**43,890**	61,145
Current income tax expense (note 13)	**13,343**	5,444
Deferred income tax expense (note 13)	**2,678**	14,006
Net income	**27,869**	41,695
Other comprehensive (loss) gain:		
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(2,108)**	2,574
Comprehensive income	**25,761**	44,269
Net income per share (note 14)		
Basic	**0.50**	0.76
Diluted	**0.49**	0.74

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

Canadian Energy Services & Technology Corp.

Consolidated Statements of Changes in Equity
(stated in thousands of Canadian dollars, except per share amounts)

	Years Ended December 31,	
	2012	2011
COMMON SHARES		
Balance, beginning of year	**200,412**	195,755
Issued pursuant to stock-based compensation (note 14)	**6,099**	4,657
Consideration for acquired businesses (note 4)	**9,060**	-
Balance, end of year	**215,571**	200,412
CONTRIBUTED SURPLUS		
Balance, beginning of year	**4,135**	1,900
Reclassified pursuant to stock-based compensation (note 14)	**(2,490)**	(1,089)
Stock-based compensation expense (note 15)	**6,406**	3,324
Balance, end of year	**8,051**	4,135
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	**(2,809)**	(5,383)
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(2,108)**	2,574
Balance, end of year	**(4,917)**	(2,809)
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year	**2,322**	(13,255)
Net income	**27,869**	41,695
Dividends declared (note 17)	**(33,476)**	(26,118)
Balance, end of year	**(3,285)**	2,322
	215,420	204,060

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

Canadian Energy Services & Technology Corp.
Consolidated Statements of Cash Flows
(stated in thousands of Canadian dollars, except per share amounts)

	Years Ended December 31,	
	2012	2011
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the year	**27,869**	41,695
Adjustments for:		
Depreciation and amortization	**11,297**	9,450
Stock-based compensation	**6,406**	3,324
Non-cash finance costs	**69**	384
Deferred income tax expense	**2,678**	14,006
Gain on disposal of assets	**(85)**	(196)
Change in non-cash working capital (note 21)	**38,787**	(70,956)
	87,021	(2,293)
FINANCING ACTIVITIES:		
Repayment of long-term debt and finance leases	**(4,048)**	(6,354)
Issuance of long-term debt and lease proceeds	**1,470**	1,834
Issuance of shares, net of issuance costs	**3,609**	3,568
(Decrease) increase in Senior Facility	**(24,887)**	48,738
Shareholder dividends	**(32,831)**	(25,448)
	(56,687)	22,338
INVESTING ACTIVITIES:		
Investment in property and equipment	**(17,771)**	(16,133)
Investment in intangible assets	**(260)**	(220)
Deferred acquisition consideration	**-**	(4,951)
Business combinations (note 4)	**(13,700)**	-
Proceeds on disposal of property and equipment	**1,397**	1,005
	(30,334)	(20,299)
Effect of exchange rate on bank indebtedness	**-**	255
CHANGE IN CASH	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**4,084**	2,287
Income taxes paid	**5,698**	5,214

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

1. The Company

Canadian Energy Services & Technology Corp. ("CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 700 – 4th Avenue SW, Calgary, Alberta, Canada T2P 3J4. CES was formerly Canadian Energy Services L.P. (the "Partnership"). Effective January 1, 2010, the Partnership completed a Plan of Arrangement ("Arrangement") with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a limited partnership to a corporation (the "Conversion"). The consolidated financial statements of the Company as at and for the years ended December 31, 2012 and 2011, comprise the Company and its subsidiaries (together referred to as the "Company" or "CES").

The Company specializes in the design and implementation of drilling fluid solutions for the North American oil and gas industry, and in particular for horizontal and directional resource play drilling. In Canada, it operates as Canadian Energy Services and Moose Mountain Mud. In the United States ("US"), it operates through its indirect wholly-owned subsidiary, AES Drilling Fluids, LLC ("AES"). In Canada, in addition to drilling fluids, the Company operates a transportation division, Equal Transport; an environmental services division, Clear Environmental Solutions; and has established a drilling fluid and production chemical blending division, PureChem Services.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. As the business expands in the US and the production chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 7, 2013.

b) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention except for the following items in the statement of financial position:

(i) derivative financial instruments are measured at fair value; and
(ii) financial instruments at fair value through profit or loss are measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Gains and losses on translation of monetary items are recognized in the statement of comprehensive income in finance costs, except for those foreign exchange gains or losses arising from assets and liabilities of a foreign operation, which are recognized in other comprehensive income ("OCI") in the cumulative translation reserve.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in OCI.

3. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company balances and transactions are eliminated on consolidation.

b) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on an average cost basis, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

c) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within cost of sales in profit or loss.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment, including repairs and maintenance, are recognized in profit or loss as incurred.

Property and equipment are depreciated using the straight-line method over their estimated useful lives at the following rates:

Computer equipment	3 years
Vehicles	3-5 years
Trucks and trailers	3-5 years
Field equipment	5-20 years
Processing equipment	15 years
Leasehold improvements	3-5 years
Furniture and fixtures	5 years
Buildings	10-20 years
Tanks	15-20 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate. The Company regularly reviews its property and equipment to assess for impairment.

d) Leased assets

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets and corresponding lease obligations are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

e) Identifiable intangible assets

The Company's intangible assets include customer relationships, proprietary software, and patents with finite useful lives. Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized using the straight-line method through profit or loss over their estimated useful lives when the realization of economic benefits begins. The estimated useful lives are as follows:

Customer relationships	5-7 years
Software	3 years
Patents	10 years
Other intangibles	10 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively, as required.

f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed based on their fair values as of the acquisition date. Goodwill acquired through a business combination is allocated to each cash generating unit ("CGU"), or group of CGUs, that is expected to benefit from the business combination. Each of these CGUs represents the lowest level within the Company at which the associated goodwill is monitored for management purposes.

g) Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated by the Company to the CGUs that are expected to benefit from the synergies of the business combination. This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss related to goodwill is not reversed.

h) Provisions

Provisions are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value as applicable. The Company reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

i) Revenue recognition

The Company's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been consumed and mixed into the mud system. For sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service and trucking charges is recognized based upon agreed daily, hourly, or job rates when the service is performed. Revenue is only recognized when collection is considered probable. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. The Company's contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation

The Company uses the fair value method to account for stock options granted to employees, officers, and directors of the Company for grants under the Company's Option Plan and Share Rights Incentive Plan. Compensation expense for options granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant and the expense is recognized over the tranche's vesting period by increasing contributed surplus, with a corresponding increase to general and administrative expenses, based on the number of awards expected to vest. Forfeitures are estimated based on past experience and future expectations and are adjusted upon actual vesting.

k) Restricted share units

Restricted share units are intended to be awarded to employees and officers of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense is based on the estimated fair value of the share-based compensation award at the date of grant, calculated using a five day volume weighted average share price. Compensation expense associated with the share-based compensation plan is recognized in income over the vesting period of the plan with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for restricted share units at the date of grant based on the number of awards expected to vest. Forfeitures are estimated based on past experience and future expectations and are adjusted upon actual vesting.

l) Finance costs

Finance costs are comprised of interest expense on borrowings, financial derivative gains and losses, foreign currency gains and losses resulting from foreign currency transactions which are translated into the Company's functional currency, and the amortization of capitalized deferred financing costs.

m) Borrowing costs

Borrowing costs attributable to the acquisition, construction, or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized as finance costs in the statement of comprehensive income, using the effective interest method, in the period in which they are incurred.

n) Income taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and other foreign jurisdictions to the extent they are not sheltered by existing tax pools. Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current income tax expense is the expected tax payable or receivable on the taxable income or loss for the year based upon the transactions entered into and recorded by the Company and based on the estimates and calculations used during the normal course of business. Current income tax expense is recorded using tax rates enacted or substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years.

Deferred income tax expense and recoveries are recognized in respect of unused tax losses and tax credits as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates which are expected to apply to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax liability is generally recognized for all taxable temporary differences. Deferred income tax liabilities are not recognized on the following:

- taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- temporary differences that arise from goodwill which is not deductible for tax purposes.

A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Future income tax inflows and outflows are subject to estimation in terms of both timing and the amount of future taxable earnings. Should these estimates change, the carrying value of the corresponding income tax assets or liabilities will change.

o) Derivative financial instruments

Derivative financial instruments are used by the Company to manage its exposure to market risk. The Company's policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments are classified as held for trading and are recorded at fair values on the consolidated statement of financial position as either an asset or liability with changes in fair value recognized in the consolidated statement of comprehensive income. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statement of comprehensive income at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties to settle the outstanding transactions with reference to the estimated forward prices as of the reporting date.

p) Financial instruments

i) Non-derivative financial assets:

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

a. financial assets at fair value through profit or loss; and
b. loans and receivables.

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets and liabilities are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets and liabilities designated at fair value through profit or loss are measured at fair value and their changes therein are recognized in profit or loss. The only instruments held by the Company classified in this category are derivative financial instruments (note 3 (o)).

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. The Company has the following loans and receivables: accounts receivable.

ii) Non-derivative financial liabilities:
All financial liabilities, including liabilities designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities; dividends payable; income taxes payable; finance lease obligations; and long-term debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

q) Net income per share
Basic net income per share is based on the income attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period. The diluted net income per share is based on the weighted average number of common shares outstanding during the period plus the effects of dilutive share equivalents which include the outstanding Unit Options, Share Rights, and Restricted Share Units. Diluted net income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held and for the effects of all dilutive potential common shares.

r) Business combinations
The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and debt incurred or assumed at the acquisition date. Costs directly attributable to the acquisition are expensed in the period incurred. The fair value of the assets and liabilities is determined and compared to the fair value of the consideration paid. If the fair value of the consideration paid exceeds the fair value of the net assets, then goodwill is recognized. If the fair value of the consideration paid is less than the estimated fair value of the net assets acquired, the difference is recognized directly in the statement of comprehensive income.

s) Segment reporting
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets; head office and corporate expenses; interest expense; stock-based compensation expense; and income tax assets and liabilities and corresponding recoveries and expenses. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

t) Significant accounting judgments and estimates
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes will differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made, relate to, but are not limited to, the following:

Accounts receivable
The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts.

Inventories
The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed quarterly for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Property and equipment
Management estimates the useful lives and residual value of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at the end of each reporting period or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. The recoverability of the Company's asset carrying values is assessed at the CGU level. The determination of the CGUs is subject to management judgments taking into consideration: the nature of the underlying business operations, geographical proximity of operations, shared infrastructure, and exposure to market risk.

The assessment of any impairment of property and equipment, including intangible assets and goodwill, is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated using future cash flow projections, discounted to their present value, expected to arise from the CGU to which the goodwill relates. The required valuation methodology and underlying financial information that is used to determine value in use requires significant judgments to be made by management. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. The estimated future cash flows are dependent upon a number of factors including, among others, the levels of drilling activity within the oil and natural gas industry. Actual drilling activity cannot be predicted with certainty and, as such, actual results will differ from these estimates.

Derivatives
The fair value of outstanding derivatives is based on forward curves as at the reporting date and will differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in profit or loss. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of stock options granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, actual and expected life of the options, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading history excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that vest. Consequently, the actual stock-based compensation expense will vary from the amount estimated.

Restricted share units
Management makes an estimate of the number of restricted shares that will be forfeited and the rate is adjusted to reflect the actual number of restricted shares that vest. Consequently, the actual stock based compensation expense associated with the restricted share units will vary from the amount estimated.

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their respective tax bases based on the enacted or substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary

differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact earnings.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, state, and provincial jurisdictions in Canada, the United States, and other foreign jurisdictions. Corporate income tax and other returns are filed, and current income tax provisions are recorded, based upon the transactions entered into and recorded by the Company and are based on the estimates and calculations used by the Company during the normal course of business and in the preparation of these returns. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit which could result in adjustments and potential litigation by the tax authorities, which in turn could affect the Company's tax provisions in future years. As applicable, the Company maintains provisions for uncertain tax positions that it believes are appropriate. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors at the reporting period. The Company reviews the adequacy of these provisions at the end of each reporting period and adjusts them as required. However, it is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. These differences could materially impact earnings.

Commitments and contingencies
Management estimates the inputs used in determining the various commitments and contingencies accrued in the consolidated statement of financial position.

u) Recent Accounting Pronouncements
The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In May 2011, the International Accounting Standards Board ("IASB") released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below. The adoption of these standards is not expected to have a significant impact on the Company's financial statements.

- IFRS 10, "*Consolidated Financial Statements*" ("IFRS 10") replaces IAS 27, "*Consolidated and Separate Financial Statements*" ("IAS 27") and Standing Interpretations Committee ("SIC") 12, "*Consolidation – Special Purpose Entities*". IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent;

- IFRS 11, "*Joint Arrangements*" ("IFRS 11") replaces IAS 31, "*Interest in Joint Ventures*" ("IAS 31") and SIC 13, "*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*". This standard requires a party to assess its rights and obligations from the arrangement in order to determine the type of joint arrangement. The choice of proportionate consolidation accounting is removed for joint ventures (formerly jointly controlled entities) as equity accounting is required;

- IFRS 12, "*Disclosure of Interest in Other Entities*" ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28, "*Investments in Associates*". It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities;

- IFRS 13, "*Fair Value Measurement*" ("IFRS 13") provides a consistent and less complex definition of fair value, establishes a single source for determining fair value, and introduces consistent requirements for disclosures related to fair value measurement;

- There have been amendments to existing standards, including IAS 1, "*Presentation of Financial Statements*" ("IAS 1"), IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 1 (effective for annual periods beginning on or after July 1, 2012), has been amended to require companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in

non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 12.

As of January 1, 2015, the Company will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the IASB project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company's financial statements will not be known until the project is complete.

4. Business Combinations

Petrotreat Inc.

On February 16, 2012, in order to expand the Company's drilling fluid and production chemical manufacturing division, the Company completed the acquisition of all the business assets of Petrotreat Inc. ("Petrotreat"), a privately-held production chemical and well stimulation service company that provides solutions to oil and gas producers to increase the productivity of their oil, gas, or injection wells and provides products to remove paraffin, asphaltene, and inorganic deposition in the near wellbore or from production equipment both downhole or on surface. The effective date of the acquisition was February 1, 2012. The aggregate purchase price was $3,207, consisting of $1,344 in cash and $1,863 in share consideration through the issuance of 147,826 common shares of the Company. The purchase price allocation was based upon the respective fair values as of February 16, 2012. In conjunction with this transaction, the Company recorded $70 in transaction costs to general and administrative expenses.

The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	210
Property and equipment	183
Intangible assets	620
Goodwill	2,214
Total assets	**3,227**
Current liabilities	(20)
Total liabilities	**(20)**
Net assets acquired	**3,207**

Consideration given $000's	
Cash	1,344
Share consideration	1,863
Total consideration	**3,207**

ProDrill

On November 21, 2012, in order to expand the Company's Canadian drilling fluid division, the Company completed the acquisition of the business assets of Tervita Corporation's drilling fluids division, ProDrill Fluid Technologies ("ProDrill"). The effective date of the acquisition was November 21, 2012. The aggregate purchase price was $12,106, consisting of $8,724 in cash, $3,246 in share consideration through the issuance of 324,562 common shares of the Company, and $136 related to a working capital adjustment. The purchase price allocation was based upon the respective fair values as of November 21, 2012. In conjunction with this transaction, the Company recorded $72 in transaction costs to general and administrative expenses.

The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	3,880
Property and equipment	224
Intangible assets	2,200
Goodwill	5,802
Total assets	**12,106**
Current liabilities	-
Total liabilities	**-**
Net assets acquired	**12,106**

Consideration given $000's	
Cash	8,724
Share consideration	3,246
Working capital adjustment	136
Total consideration	**12,106**

Mega Fluids

On December 31, 2012, in order to expand the Company's US operations, the Company completed the acquisition of all of the business assets of Mega Fluids Mid-Continent, LLC ("Mega Fluids"), a privately–held drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the Mid-Continent region. The effective date of the acquisition was December 31, 2012. The aggregate purchase price was $11,202 (US$11,288), consisting of $3,632 (US$3,651) in cash, $3,951 (US$4,000) in share consideration through the issuance of 376,677 common shares of the Company, and $3,619 (US$3,637) in additional deferred acquisition consideration.

Of the deferred consideration balance, $1,629 (US$1,637) relates to monies withheld at closing pending finalization of outstanding agreements, and a working capital adjustment. The remaining $1,990 (US$2,000) of deferred consideration is payable in two payments of US$1,000 each upon achieving specified objectives.

The purchase price allocation was based upon the respective fair values as of December 31, 2012. In conjunction with this transaction, the Company recorded $43 in transaction costs to general and administrative expenses.

The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	1,210
Property and equipment	356
Intangible assets	2,040
Goodwill	7,817
Total assets	**11,423**
Current portion of lease liabilities	(81)
Non-current portion of lease liabilities	(140)
Total liabilities	**(221)**
Net assets acquired	**11,202**

Consideration given $000's	
Cash	3,632
Share consideration	3,951
Consideration payable post-close and working capital adjustment	1,629
Deferred consideration	1,990
Total consideration	**11,202**

The goodwill recognized on the Company's acquisitions is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company.

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2012 was $245,972 (2011 – $232,083). During the year ended December 31, 2012 the Company recorded $nil inventory valuation write-downs and $nil inventory valuation write-down reversals (2011 – $nil and $nil, respectively).

6. Property and Equipment

Property and equipment are comprised of the following balances:

$000's	Balance December 31, 2011	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2012
Cost:						
Buildings	12,143	30	5,064	-	(118)	17,119
Tanks	10,387	-	3,691	-	(150)	13,928
Vehicles	9,009	321	3,846	(2,556)	(74)	10,546
Trucks and trailers	10,286	8	2,012	(165)	(39)	12,102
Field equipment	6,949	340	1,872	(80)	(87)	8,994
Processing equipment	3,083	-	846	-	(56)	3,873
Land	1,670	-	459	-	(23)	2,106
Leasehold improvements	829	-	1,722	-	(14)	2,537
Furniture and fixtures	697	40	344	(4)	(6)	1,071
Computer equipment	1,186	24	215	(9)	(4)	1,412
	56,239	763	20,071	(2,814)	(571)	73,688

$000's	Balance December 31, 2011	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2012
Depreciation:					
Buildings	1,207	796	-	(7)	1,996
Tanks	662	668	-	(9)	1,321
Vehicles	2,725	2,213	(1,328)	(30)	3,580
Trucks and trailers	3,805	1,855	(117)	(8)	5,535
Field equipment	2,414	1,414	(7)	(71)	3,750
Processing equipment	298	292	-	(4)	586
Land	-	-	-	-	-
Leasehold improvements	432	378	-	(5)	805
Furniture and fixtures	316	147	(1)	(3)	459
Computer equipment	837	163	(8)	(3)	989
	12,696	7,926	(1,461)	(140)	19,021

$000's	Balance December 31, 2011	Balance December 31, 2012
Carrying amounts:		
Buildings	10,936	15,123
Tanks	9,725	12,607
Vehicles	6,284	6,966
Trucks and trailers	6,481	6,567
Field equipment	4,535	5,244
Processing equipment	2,785	3,287
Land	1,670	2,106
Leasehold improvements	397	1,732
Furniture and fixtures	381	612
Computer equipment	349	423
	43,543	54,667

$000's	Balance December 31, 2010	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2011
Cost:					
Trucks and trailers	6,914	3,507	(49)	(86)	10,286
Buildings	9,726	2,428	-	(11)	12,143
Tanks	5,466	4,808	-	113	10,387
Vehicles	6,209	4,774	(1,918)	(56)	9,009
Field equipment	4,236	2,585	(40)	168	6,949
Computer equipment	1,070	114	(1)	3	1,186
Processing equipment	1,811	1,255	-	17	3,083
Land	1,616	40	-	14	1,670
Furniture and fixtures	503	183	-	11	697
Leasehold improvements	582	235	-	12	829
	38,133	19,929	(2,008)	185	56,239

$000's	Balance December 31, 2010	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2011
Depreciation:					
Trucks and trailers	2,271	1,695	(168)	7	3,805
Buildings	651	551	-	5	1,207
Tanks	271	385	-	6	662
Vehicles	1,890	1,907	(1,115)	43	2,725
Field equipment	1,452	955	(33)	40	2,414
Computer equipment	608	228	(1)	2	837
Processing equipment	74	220	-	4	298
Land	-	-	-	-	-
Furniture and fixtures	211	103	-	2	316
Leasehold improvements	152	274	-	6	432
	7,580	6,318	(1,317)	115	12,696

$000's	Balance December 31, 2010	Balance December 31, 2011
Carrying amounts:		
Trucks and trailers	4,643	6,481
Buildings	9,075	10,936
Tanks	5,195	9,725
Vehicles	4,319	6,284
Field equipment	2,784	4,535
Computer equipment	462	349
Processing equipment	1,737	2,785
Land	1,616	1,670
Furniture and fixtures	292	381
Leasehold improvements	430	397
	30,553	43,543

Borrowing costs
For the year ended December 31, 2012, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $nil (2011 – $40).

7. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

$000's	Customer relationships	Software	Patents	Other intangibles	Total intangibles	Goodwill
Cost:						
Balance at December 31, 2011	18,846	953	327	1,017	21,143	96,226
Additions through business combinations	4,810	-	-	50	4,860	15,833
Additions	-	182	33	25	240	-
Effect of movements in exchange rates	(320)	(11)	-	(22)	(353)	(976)
Balance at December 31, 2012	23,336	1,124	360	1,070	25,890	111,083
Amortization:						
Balance at December 31, 2011	5,931	535	99	153	6,718	-
Amortization for the year	2,896	327	39	109	3,371	-
Effect of movements in exchange rates	(88)	(28)	-	(4)	(120)	-
Balance at December 31, 2012	8,739	834	138	258	9,969	-
Carrying amount at December 31, 2012	**14,597**	**290**	**222**	**812**	**15,921**	**111,083**

$000's	Customer relationships	Software	Patents	Other intangibles	Total intangibles	Goodwill
Cost:						
Balance at December 31, 2010	18,599	774	276	1,000	20,649	95,448
Additions through business combinations	-	-	-	-	-	-
Additions	-	170	51	-	221	-
Effect of movements in exchange rates	247	9	-	17	273	778
Balance at December 31, 2011	18,846	953	327	1,017	21,143	96,226
Amortization:						
Balance at December 31, 2010	3,123	326	66	51	3,566	-
Amortization for the year	2,727	204	33	99	3,063	-
Effect of movements in exchange rates	81	5	-	3	89	-
Balance at December 31, 2011	5,931	535	99	153	6,718	-
Carrying amount at December 31, 2011	12,915	418	228	864	14,425	96,226

Impairment testing for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the Company's CGU's which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Drilling Fluids Division (Canada)	**49,982**	41,966
Drilling Fluids Division (US) [(1)]	**53,154**	46,313
Environmental Services Division (Clear)	**7,947**	7,947
	111,083	96,226

[(1)] Amounts denominated in foreign currencies have been translated at the respective year-end exchange rates

The Company's impairment analysis as of December 31, 2012, indicated that the recoverable amount of the net assets for each CGU exceeded its respective carrying value and, therefore, no indication of impairment exists. The recoverable amount of the CGU's was based on their value in use.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates for the purpose of the impairment analysis using pre-tax rates that reflect the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk free rate of return adjusted for the Company's estimated equity market risk premium and the Company's estimated cost of debt. An estimated pre-tax discount rate of 11% was used as at December 31, 2012 (December 31, 2011 – 11%). The growth rates represent management's current assessment of future trends in the service industry and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for the upcoming year and subsequent five year period based on estimated variable growth rates of 5% to 7.5% for the first five years and 5% for years thereafter. Future cash flows are based on various assumptions and judgments including actual performance of the business, management's estimates of future performance, and indicators of future service industry activity levels. It is unlikely that a change in a key assumption in the value-in-use calculation would cause the CGU's carrying amounts to exceed its recoverable amounts.

8. Long-Term Debt

On October 2, 2012, the Company completed an amendment to its existing Senior Facility. The syndicated Senior Facility ("Senior Facility") allows the Company to borrow up to $150,000, subject to the value of certain accounts receivable, inventory, and capital assets. The Senior Facility now has a term to maturity of three years, maturing on October 2, 2015 and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by $30,000 to a maximum borrowing of $180,000 subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25%, or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Senior Facility has a standby fee ranging from 0.40% to 0.73%. The covenants on the Senior Facility are detailed in note 20.

During the year, on March 22, 2012, the Company entered into an amending agreement on its previous Senior Facility permitting it to borrow up to an additional $20,000 (the "Bridge Facility"). The Bridge Facility was drawn in full on March 30, 2012 and was repaid in full on September 18, 2012.

As of December 31, 2012, based on eligible accounts receivable, inventory, and capital asset balances, the maximum available draw on the Senior Facility was $98,165 (December 31, 2011 - $120,000). At December 31, 2012, the Company had drawn $67,410 on the Senior Facility (December 2011 – $93,362), net of capitalized transaction cost of $583 (December 31, 2011 – $495). Transactions costs attributable to the Facility are recorded as part of the Facility and amortized to finance costs over the remaining term of the Senior Facility.

The Senior Facility is secured by: (a) in respect of the Partnership, Canadian Energy Services Inc. (the "General Partner"), CES and CES Operations Ltd., guarantees and general security agreements creating a security interest in all present and after-acquired personal property of the Partnership, the General Partner, CES and CES Operations Ltd., respectively, and (b) in respect of AES and AES Drilling Fluids Holdings, LLC ("AES Holdco"), guarantees and pledge and security agreements creating a security interest in all present and after-acquired personal property of AES and AES Holdco, respectively.

The Company's long-term debt is comprised of the following balances:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Senior Facility	**67,410**	93,362
Vehicle financing loans	**2,362**	1,449
	69,772	94,811
Less current portion of long-term debt	**(1,014)**	(747)
Long-term debt	**68,758**	94,064

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 7.74%, with a weighted average rate of approximately 5.90%, and have termination dates ranging from January 2013 to October 2016.

For the year ended December 31, 2012, the Company recorded $3,351 (2011 – $449), in interest expense related to its long-term debt and lease balances.

Scheduled principal payments at December 31, 2012, are as follows:

$000's	
2013	**1,014**
2014	**939**
2015	**68,389**
2016	**13**
2017	**-**
Total	**70,355**

9. Finance Leases

On March 30, 2012, the Company completed a sale and leaseback transaction on specified assets for proceeds equal to the net book value of the respective assets in the amount of $1,470. The leases are for a period of 48 months, terminating in March 2016, and have a fixed interest rate of 5.16%.

The Company leases equipment and vehicles under a number of finance lease agreements for which the underlying leased assets secure the lease obligations. The Company's floating interest rate equipment leases are for terms ranging from March 2013 to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%. The Company's fixed interest rate equipment leases are for terms ranging from September 2015 to March 2016 with a weighted average interest rate on the Company's lease facilities of 4.93%. The Company's vehicle leases are for terms ranging from February 2013 through April 2017 with interest rates of up to 9.07% and a weighted average interest rate of approximately 6.18%. The carrying value of assets under finance leases at December 31, 2012 totaled $6,902 (December 31, 2011 – $5,732). Amortization expense relating to assets under finance leases for the year ended December 31, 2012, totaled $1,664 (2011 – $1,105).

Amounts outstanding under the Company's finance lease obligations are as follows:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Finance lease obligations	**5,407**	5,077
Less current portion of finance lease obligations	**(2,590)**	(2,362)
Long-term finance lease obligations	**2,817**	2,715

10. Cost of Sales

Included in cost of sales for the year ended December 31, 2012 is depreciation charged on property and equipment of $7,419 (2011 – $5,923), and employee compensation and benefits of $38,194 (2011 – $31,369).

11. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2012 is depreciation charged on property and equipment and amortization charged on intangible assets of $3,878 (2011 – $3,527), stock-based compensation of $6,406 (2011 – $3,324), and employee compensation and benefits of $25,755 (2011 – $29,109).

12. Finance Costs

The Company recognized the following finance expenses in its consolidated statement of comprehensive income:

	Years Ended December 31,	
$000's	**2012**	2011
Foreign exchange loss	**302**	712
Financial derivative (gain) loss	**(198)**	96
Amortization of capitalized deferred financing costs	**186**	-
Interest on debt	**3,351**	2,809
Less: capitalized interest (note 6)	**-**	(40)
Finance costs	**3,641**	3,577

13. Income Taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and other foreign jurisdictions based on the taxable income or loss including the transactions entered into and recorded by the Company and based on the estimates and calculations used by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. The provision for income taxes differs from the result that would have been obtained by applying the combined Canadian statutory federal and provisional income tax rates for the following reasons:

	Year Ended December 31,	
$000's	**2012**	2011
Income before taxes	43,890	61,145
Income tax rate	25.48%	26.95%
Expected income tax expense	11,183	16,479
Effects on taxes resulting from		
Non-deductible expenses	2,069	348
Unrealized foreign exchange (gain) loss	33	(112)
Reduction of future income tax due to rate changes	(155)	(119)
Other	(29)	31
Income tax in jurisdictions with different tax rates	2,920	2,755
Unrecognized tax benefit	-	68
Income tax expense	**16,021**	**19,450**
Current income tax expense	**13,343**	**5,444**
Deferred income tax expense	**2,678**	**14,006**

The statutory rate consists of the combined Canadian statutory tax rate for the Company for the years ended December 31, 2012 and 2011.

The components of deferred income tax assets and liabilities are as follows:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Property and equipment	**5,312**	4,262
Goodwill and other intangible assets	**4,770**	3,645
Financing costs and other tax credits	**(438)**	(625)
Non-capital losses	**(167)**	(366)
Capital losses	**(5,491)**	(4,743)
Unrecognized tax benefit, net	**5,589**	4,842
Total, net future income tax (asset) liability	**9,575**	7,015
Deferred income tax asset	**272**	602
Deferred income tax liability	**9,847**	7,617

As at December 31, 2012, the Company had $nil non-capital losses remaining (December 31, 2011 - $752) and had capital loss carry forward pools of $21,552 (2011 - $18,636). Due to uncertainty over realization of the respective pools, no deferred income tax asset has been recognized in relation to the capital loss carry forward pools.

14. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding

A summary of the changes to shareholders' equity for the year is presented below:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
Common Shares *($000's except shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**55,138,435**	**200,412**	54,395,487	195,755
Consideration for acquired businesses	**849,065**	**9,060**	-	-
Issued pursuant to Option Plan & SRIP & RSU	**860,353**	**3,609**	742,948	3,568
Contributed surplus related to Option Plan & SRIP exercise	**-**	**2,490**	-	1,089
Balance, end of year	**56,847,853**	**215,571**	55,138,435	200,412

c) Net income per share

In calculating the basic and diluted net income per share for the years ended December 31, 2012 and 2011, the weighted average number of shares used in the calculation is shown in the table below:

	Years Ended December 31,	
$000's, except share and per share amounts	**2012**	2011
Net income	**27,869**	41,695
Weighted average number of shares outstanding:		
Basic shares outstanding	**55,693,220**	54,745,391
Effect of dilutive securities	**1,702,112**	1,737,978
Diluted shares outstanding	**57,395,332**	56,483,369
Net income per share - basic	**$0.50**	$0.76
Net income per share - diluted	**$0.49**	$0.74

Excluded from the calculation of dilutive securities for the year ended December 31, 2012, are 83,087 Share Rights (2011 – 27,000).

15. Stock-Based Compensation

As at December 31, 2012, a total of 5,684,785 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan, of which 1,965,588 common shares remained available for grant.

For the year ended December 31, 2012, stock compensation expense of $6,406 (2011 – $3,324) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

a) Option Plan, formerly referred to as the Company Unit Option Plan

CES has a Share Rights Incentive Plan for any new issuances effective after January 1, 2010. All prior grants under the Unit Option Plan will continue based on the terms and conditions as of the original grant. A summary of changes to the Option Plan is presented below:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of year	**115,000**	**$2.43**	229,050	$2.47
Granted during the year	**-**	**-**	-	-
Exercised during the year	**(57,400)**	**2.07**	(114,050)	2.51
Forfeited during the year	**-**	**-**	-	-
Balance, end of year	**57,600**	**$2.79**	115,000	$2.43
Exercisable options, end of year	**57,600**	**$2.79**	47,500	$2.90

b) Share Rights Incentive Plan ("SRIP")

CES' SRIP provides incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights granted generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the grant. Under the SRIP, employees may elect to exercise the Share Rights at an adjusted exercise price in which the option exercise price will be adjusted downwards by the cumulative dividends paid by the Company.

A summary of changes to the Share Rights is presented below:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**2,987,602**	**$6.20**	3,511,500	$5.65
Granted during the year	**815,087**	**10.78**	273,000	10.59
Exercised during the year	**(678,601)**	**5.14**	(628,898)	5.22
Forfeited during the year	**(204,000)**	**5.88**	(168,000)	5.16
Balance, end of year	**2,920,088**	**$7.65**	2,987,602	$6.20
Exercisable Share Rights, end of year	**962,500**	**$6.47**	505,600	$6.11

The compensation costs for Share Rights granted during the year ended December 31, 2012, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2012
Risk-free interest rate	**1.24%**
Expected average life of Share Rights	**3.24 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.16%**
Dividend yield	**3.20%**
Expected volatility	**42.10%**
Weighted average fair value per Share Right	**$2.70**

The following table summarizes information about the outstanding grants under the Company's Share Rights Incentive Plan and Option Plan as at December 31, 2012:

	Options & Share Rights Outstanding			Options & Share Rights Exercisable	
Range of exercise prices	Options and Share Rights	Weighted average exercise price	Weighted average term remaining in years	Options and Share Rights	Weighted average exercise price
$1.84 - $3.10	18,100	$2.10	1.13	18,100	$2.10
$3.11 - $4.23	39,500	3.11	0.88	39,500	3.11
$4.24 - $5.25	401,001	4.80	2.26	78,000	4.85
$5.26 - $5.91	36,000	5.66	2.53	18,000	5.66
$5.92 - $8.25	1,407,000	6.17	2.76	775,500	6.17
$8.26 - $10.74	993,000	10.62	4.47	72,000	10.33
$10.75 - $12.90	83,087	11.99	3.12	19,000	11.57
	2,977,688	$7.56	3.24	1,020,100	$6.26

c) Restricted Share Unit Plan ("RSU")

CES' RSU Plan provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSU's. The RSU's generally vest from one up to three years on the anniversary of the date of the grant, subject to other such vesting schedules as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested.

A summary of changes to the RSU plan is presented below:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**310,030**	**$10.84**	-	$ -
Granted during the year	**525,006**	**11.86**	307,500	10.84
Reinvested during the year	**30,826**	**11.66**	2,530	10.83
Vested during the year	**(124,352)**	**10.87**	-	-
Balance, end of year	**741,510**	**$11.57**	310,030	$10.84

The weighted average fair value of RSUs granted during the year ended December 31, 2012 was $11.86 per RSU (2011 - $10.84). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded is reduced by an estimated weighted average forfeiture rate of 7.11% per year at the date of grant.

16. Contributed Surplus

The Company's contributed surplus primarily relates to the Company's stock-based compensation plans and is comprised of the following balances:

$000's	**Year Ended December 31, 2012**	Year Ended December 31, 2011
Contributed surplus, beginning of year	**4,135**	1,900
Stock-based compensation expense	**(2,490)**	(1,089)
Reclassified pursuant to stock-based compensation	**6,406**	3,324
Contributed surplus, end of year	**8,051**	4,135

17. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2012, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	$0.045	**2,483**
February	Feb 29	Mar 15	0.045	**2,489**
March	Mar 30	Apr 13	0.050	**2,769**
April	Apr 30	May 15	0.050	**2,776**
May	May 31	Jun 15	0.050	**2,779**
June	Jun 29	Jul 13	0.050	**2,784**
July	Jul 31	Aug 15	0.050	**2,785**
August	Aug 31	Sep 14	0.050	**2,788**
September	Sep 28	Oct 15	0.050	**2,794**
October	Oct 31	Nov 15	0.050	**2,800**
November	Nov 30	Dec 14	0.055	**3,102**
December	Dec 31	Jan 13	0.055	**3,127**
Total dividends declared during the year			$0.600	**33,476**

Subsequent to December 31, 2012, the Company declared dividends to holders of common shares in the amount of $0.055 per common share payable on February 15, 2013, and March 15, 2013, for shareholders of record on January 31, 2013, and February 28, 2013, respectively.

18. Commitments

The Company has commitments with payments due as follows:

$000's	2013	2014	2015	2016	2017	Total
Office and facility rent	2,282	1,702	1,547	1,299	854	**7,684**

Payments denominated in foreign currencies have been translated at the respective period end exchange rates

The Company is involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations and, therefore, the commitment table does not include any commitments for outstanding litigation and potential claims.

19. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at December 31, 2012, with that as at December 31, 2011. The carrying values of accounts receivable, accounts payable and accrued liabilities, income taxes payable and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value.

CES classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market

method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following table aggregates the Company's financial derivatives in accordance with the above hierarchy:

$000's	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2012					
Financial derivative asset	41	41	-	41	-
Total	41	41	-	41	-
As at December 31, 2011					
Financial derivative liability	183	183	-	183	-
Total	183	183	-	183	-

b) Credit risk
Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Company. The Company manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable are primarily comprised of balances from customers operating primarily in the oil and natural gas industry. Accordingly, the Company views the credit risks on these amounts as normal for the industry.

An analysis of accounts receivable, net of impairment provisions, which are past due but not impaired is as follows:

	As at	
$000's	**December 31, 2012**	December 31, 2011
Past due 61-90 days	**3,567**	11,904
Past due 91-120 days	**2,484**	3,719
Past 120 days	**2,313**	2,571
Total past due	**8,364**	18,194

The Company reduces an account receivable to its estimated recoverable amount. At December 31, 2012, the Company had recorded a provision of $404 (December 31, 2011 – $209) relating to accounts receivable which may not be collectible.

c) Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2012, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $615 lower/higher for the respective year ended December 31, 2012 (2011 – $403 lower/higher).

d) Foreign currency risk
Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Company uses the US dollar as its functional currency for the operations of AES Drillings Fluids, LLC. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign

exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2012, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease/increase net income by approximately $341 (2011 – decrease/increase $357).

At December 31, 2012, the Company had entered into the following foreign exchange U.S. dollar forward sale contracts to manage its exposure to upcoming U.S. dollar denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2013	US$570	Deliverable Forward	Physical Sale	$1.0072
February 2013	US$570	Deliverable Forward	Physical Sale	$1.0077
March 2013	US$570	Deliverable Forward	Physical Sale	$1.0073
April 2013	US$325	Deliverable Forward	Physical Sale	$1.0298
May 2013	US$325	Deliverable Forward	Physical Sale	$1.0304
Total	US$2,360			$1.0137

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated statement of financial position. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their relative short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Company has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the consolidated statement of financial position as assets or liabilities with changes in their fair value recorded in net income for the period.

For the year ended December 31, 2012, the Company recorded a realized loss of $38 (2011 – gain of $111) relating to all of its foreign currency derivative contracts. For the year ended December 31, 2012, the Company recorded an unrealized gain of $236 (2011 – unrealized loss of $207) relating to its foreign currency derivative contracts. As of December 31, 2012, the fair value of these outstanding risk management contracts result in a net financial derivative asset of $41 (December 31, 2011 – net liability of $183). At December 31, 2012, a 1% increase / decrease in the Canadian dollar vis-à-vis the US dollar is estimated to result in a change to net income of $23 (2011 – decrease/increase by $66) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk
Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall drilling activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2012, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by maintaining a committed facility and through management of its operational cash flows.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2012:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	39,562	3,619	-	-	-	**43,181**
Dividends payable [2]	3,127	-	-	-	-	**3,127**
Income taxes payable	-	7,888	-	-	-	**7,888**
Long-term debt at fixed interest rates [3]	173	841	939	409	-	**2,362**
Long-term debt at floating interest rates [3]	-	-	-	67,993	-	**67,993**
Finance lease obligations at fixed interest rates [3]	132	674	846	788	-	**2,440**
Finance lease obligations at floating interest rates [3]	351	1,433	927	256	-	**2,967**
Office operating leases	412	1,870	1,702	3,700	-	**7,684**
Total	43,757	16,325	4,414	73,146	-	**137,642**

[1] Payments denominated in foreign currencies have been translated at the respective period end exchange rate
[2] Dividends declared as of December 31, 2012
[3] Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

20. Capital Management

For the year ended December 31, 2012, the Company considers capital to include shareholders' equity, and long-term debt (including current portion). This remains consistent with the year ended December 31, 2011. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk and providing shareholders with a sustainable and prudent level of dividends.

Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, CES may adjust the level of dividends paid to shareholders, issue new shares, dispose of assets, repay debt, or issue new debt.

In addition to monitoring the externally imposed capital requirements, as detailed below, the Company manages capital by analyzing working capital levels, forecasted cash flows, planned investments in property and equipment, and general economic conditions. The Company has the following financial covenants pursuant to the Senior Facility agreement:

- The quarterly debt to tangible net worth must not exceed 2.50 to 1.00. The ratio of debt to tangible net worth is calculated as total liabilities per the consolidated financial statements, less future income taxes, less any indebtedness that has been subordinated and postponed to the bank, and less any leases characterized as operating leases divided by the total of stated capital, contributed surplus, retained earnings, and any indebtedness that has been subordinated and postponed to the bank, less any intangible asset, and less any future income tax assets.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to current liabilities is calculated as total current assets per the consolidated financial statements divided by current liabilities per the consolidated financial statements excluding the current portion of long-term liabilities but including capital lease obligations and indebtedness postponed and subordinated to the lenders.
- The ratio of Funded Debt to Trailing EBITDA (a measurement defined as net earnings before interest, tax, depreciation and amortization, gains and losses on disposal of assets, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, and stock-based compensation) must not exceed 3.00 to 1.00, as calculated on a rolling four-quarter basis.

As at December 31, 2012, the Company is in compliance with all of the financial requirements under this agreement.

21. Supplemental Information

The changes in non-cash working capital were as follows:

	Years Ended December 31,	
$000's	**2012**	2011
Decrease (increase) in current assets		
Accounts receivable	**58,690**	(63,992)
Inventory	**970**	(27,275)
Prepaid expenses	**950**	(2,630)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(23,320)**	23,781
	37,290	(70,115)
Relating to:		
Operating activities	**38,787**	(70,956)
Investing activities	**(1,497)**	841

For the years ended December 31, 2012 and 2011, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statement of Cash Flows.

22. Segmented Information

The Company has three reportable operating segments as determined by management, which are the Drilling Fluids segment, the Trucking segment, and the Environmental Services segment. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the Western Canadian Sedimentary Basin and in the United States through its subsidiary, AES Drilling Fluids, LLC. The Trucking segment is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment is comprised of the Company's environmental division, Clear Environmental Services, which provides environmental and drilling fluids waste disposal services largely to oil and gas producers.

Selected summary financial information relating to the operational segments is as follows:

	Year Ended December 31, 2012				
$000's	Drilling Fluids [1]	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	435,271	17,881	18,972	(825)	**471,299**
Gross margin	102,196	500	7,471	-	**110,167**
Amortization	8,231	2,343	723	-	**11,297**
Interest expense	3,011	255	86	-	**3,351**
Income before taxes	42,227	(1,225)	2,888	-	**43,890**
Total assets	320,597	17,826	16,219	-	**354,642**
Capital expenditures	13,128	4,619	24	-	**17,771**

	Year Ended December 31, 2011				
$000's	Drilling Fluids [1]	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	423,192	19,432	17,403	(770)	459,257
Gross margin	114,037	2,984	6,415	(21)	123,415
Depreciation and amortization	6,555	2,169	726	-	9,450
Interest expense	2,555	158	56	-	2,769
Income before taxes	57,150	1,655	2,361	(21)	61,145
Total assets	354,786	15,434	15,131	-	385,351
Capital expenditures	9,204	6,875	54	-	16,133

[1] Results from PureChem operations for the years ended December 31, 2012 and 2011, have been included in the Drilling Fluids segment.

Geographical information relating to the Company's activities is as follows:

	Revenue	
	Years Ended December 31,	
$000's	**2012**	2011
Canada	**204,561**	209,013
United States	**266,738**	250,244
Total	**471,299**	459,257

	Long-Term Assets [1]	
$000's	**December 31, 2012**	December 31, 2011
Canada	**90,405**	76,904
United States	**91,266**	77,290
Total	**181,671**	154,194

[1] Includes: Property and equipment, goodwill, and intangible assets

23. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2012, remuneration of $10,137 included $7,537 of salaries and cash-based compensation and $2,600 of stock-based compensation costs (December 31, 2011 – $9,958 and $751, respectively).

24. Significant Subsidiaries

The Company operates through two significant subsidiaries based on geographic location:

		Ownership Interest %	
Subsidiary Name	Country of Incorporation	**December 31, 2012**	December 31, 2011
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

25. Economic Dependence

For the year ended December 31, 2012, one customer accounted for 16.3% (2011 – 14%) of the Company's total revenue.

26. Subsequent Events

JACAM Acquisition

On March 1, 2013, through its US subsidiaries, CES completed the acquisition of all of the business assets of JACAM Chemicals Company, Inc. ("JACAM") and its subsidiaries (the "JACAM Acquisition") pursuant to the terms of an asset purchase agreement dated March 1, 2013 in order to expand the Company's existing production chemical division into the US.

JACAM is private company that manufactures and distributes oilfield related specialty chemicals. JACAM designs and manufactures its products in Sterling, Kansas which also serves as its corporate head office. JACAM provides its products and

delivers services to a large number of companies in the oil and natural gas business. JACAM's customers are predominantly producers but JACAM also sells products to service companies and to the pipeline industry. JACAM operates in Kansas, Oklahoma, Texas, New Mexico, Colorado, Wyoming, Montana, Utah, California, and North Dakota.

The effective date of the JACAM Acquisition was March 1, 2013. The aggregate purchase price was approximately US$240,000 consisting of US$170,000 in cash paid on the date of acquisition, approximately US$60,000 in share consideration satisfied through the issuance of 5,454,546 common shares of the Company, and a US$10,000 promissory note. The promissory note incurs interest at a rate of 0.21% per annum and matures on May 1, 2013.

As of the date these consolidated financial statements were authorized for issue by the Company's Board of Directors on March 7, 2013, the Company had not finalized the allocation of the purchase price for the JACAM Acquisition. The Company will report a preliminary purchase price allocation in the Company's condensed consolidated financial statements for the three months ended March 31, 2013.

JACAM Acquisition Bridge Financing and Amended Senior Facility
In conjunction with the acquisition, on February 26, 2013, the Company completed a second amendment and restatement to its existing syndicated Senior Facility ("Amended Senior Facility") in which it obtained a bridge facility of $160,000 ("JACAM Acquisition Bridge Facility") for the sole purpose of financing the JACAM Acquisition. The JACAM Acquisition Bridge Facility has a one year term and is repayable in full by February 26, 2014. The JACAM Acquisition Bridge Facility incurred commitment and other fees of $1,650 payable on the date of draw. Amounts drawn on the JACAM Acquisition Bridge Facility incur interest at the Banker's Acceptance Rate of 3.00% which rises in quarterly increments up to 5.50%. The JACAM Acquisition Bridge Facility is also subject to quarterly duration fees on amounts outstanding on the JACAM Acquisition Bridge Facility rising from 25 basis points to 75 basis points.

The Company intends to repay the JACAM Acquisition Bridge Facility with a proposed private placement financing of senior unsecured notes following the JACAM Acquisition.

With the exception of the change to the Company's debt covenants detailed below, the terms and conditions of Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility. The Amended Senior Facility allows the Company to borrow up to $150,000, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility matures on October 2, 2015 and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30,000 to a maximum borrowing of $180,000 subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Amended Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25%, or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%. The pricing on the Amended Senior Facility is not impacted by the amounts outstanding on the JACAM Acquisition Bridge Facility.

The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

The Company has amended the financial covenants pursuant to the Amended Senior Facility agreement to the following:

- The ratio of Total Funded to EBITDA on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 3.50 to 1.00 as calculated on a rolling four-quarter basis while the JACAM Acquisition Bridge Facility remains outstanding. Following repayment of the JACAM Acquisition Bridge Facility, the Senior Funded Debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis. The proposed private placement financing of senior unsecured notes as noted above would not be included in the calculation of Senior Funded Debt.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. For purposes of this calculation, the JACAM Acquisition Bridge Facility is excluded in the computation of current liabilities while it remains outstanding.
- The quarterly ratio of EBITDA to interest expense must be less than 3:00 to 1:00 calculated on a rolling four-quarter basis.

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