Canadian Energy
SERVICES

# ANNUAL INFORMATION FORM

**For the Year Ended December 31, 2010**

**March 17, 2011**

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## GLOSSARY OF TERMS

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder;

"**Acquisition**" means the acquisition of the Purchased Assets by the Partnership from the Vendors and the assumption by the Partnership of certain related liabilities pursuant to the Asset Purchase Agreements;

"**Acquisition Note**" means an approximately $25.3 million non-interest bearing promissory note issued by the Partnership to each of the Vendors as part of the consideration for the Purchased Assets in connection with the Acquisition, which notes were repaid immediately upon closing of the IPO;

"**AES**" means AES Drilling Fluids, LLC, an indirect wholly-owned subsidiary of CESTC;

"**AES Holdco**" means AES Drilling Fluids Holdings, LLC, an indirect wholly-owned subsidiary of CESTC;

"**Arrangement**" means the arrangement, under the provisions of section 192 of the CBCA, on the terms and conditions set forth in the Arrangement Agreement, pursuant to which the Conversion Transaction became effective;

"**Arrangement Agreement**" means the amended and restated arrangement agreement dated effective as of November 10, 2009, between the Partnership and Nevaro with respect to the Arrangement;

"**Asset Purchase Agreements**" means the asset purchase agreements dated March 2, 2006, as amended and restated on May 10, 2006, between the Partnership and each of CFS and Impact providing, in each case, for the acquisition by the Partnership of that portion of the Purchased Assets owned respectively by CFS and Impact, and the assumption by the Partnership of the liabilities associated with such Purchased Assets;

"**Board of Directors**" or "**Board**" means the board of directors of CESTC (and includes, as the context permits, the board of directors of the General Partner);

"**CBCA**" means the *Canada Business Corporations Act*, R.S.C. 1985, c. C 44 as from time-to-time amended or re-enacted, and all regulations promulgated thereunder;

"**CESTC**" or the "**Corporation**" means Canadian Energy Services & Technology Corp., a corporation arranged under the CBCA, including any predecessors thereto;

"**CFS**" means Canadian Fluid Systems Ltd., a corporation continued under the ABCA;

"**Champion**" means Champion Drilling Fluids Inc., a private corporation incorporated under the Oklahoma, USA;

"**Champion Acquisition**" means the acquisition by the Partnership of substantially all of the business and assets of Champion;

"**Champion Business Acquisition Agreement**" means the business acquisition agreement dated November 26, 2009 between the General Partner, on behalf of the Partnership, AES, Champion and the shareholders of Champion;

"**Champion Debenture**" means the subordinated convertible debenture of AES in the aggregate principal amount of $6,627,157 issued to Champion pursuant to the Champion Acquisition and subsequently converted into 791,776 Common Shares in connection with the Conversion Transaction;

"**Champion Escrow Agreement**" means the escrow agreement, as amended, among Champion, AES, the Partnership and the Escrow Agent pursuant to the Champion Acquisition;

"**Class A Units**" means the Class A Common limited partnership units of the Partnership;

"**Clear**" means Clear Environmental Solutions Inc., a corporation incorporated under the ABCA;

"**Clear Acquisition**" means the acquisition by the Partnership of all of the business and assets of Clear;

"**Clear Business Acquisition Agreement**" means the business acquisition agreement dated May 22, 2008 between the General Partner, on behalf of the Partnership, and Clear;

"**Clear Escrow Agreement**" means the escrow agreement among Clear, the Partnership and the Escrow Agent pursuant to the Clear Acquisition;

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Conversion Rules**" has the meaning ascribed thereto under the heading "General Development of the Business-2007-Amendments to Tax Legislation Affecting the Partnership";

"**Conversion Transaction**" means the conversion of the business of CESTC from a limited partnership structure to a corporate structure pursuant to the Arrangement;

"**Convertible Note**" means the $3.0 million aggregate principal amount convertible unsecured promissory note issued to each of CFS and Impact in respect of the working capital adjustment under their respective Asset Purchase Agreements;

"**Divested Assets**" means all of the property and assets of Nevaro immediately prior to the Effective Time whether real or personal, tangible or intangible, of every kind and description and wheresoever situate, as further defined in the Divestiture Agreement, which specifically excluded the Partnership Loan Promissory Note;

"**Divestiture Agreement**" means the divestiture agreement entered into and dated as of the Effective Date providing for the transfer, assignment and conveyance by Nevaro of the Divested Assets to Newco;

"**Drilling Fluid Systems Business**" means the drilling fluid systems businesses acquired of CESTC;

"**Effective Date**" means the date the Arrangement became effective under the CBCA, being January 1, 2010;

"**ERCB**" means the Energy Resources Conservation Board of Alberta;

"**Escrow Agent**" means Computershare Trust Company of Canada, in its capacity, as the context permits, as escrow agent under the Clear Escrow Agreement, Champion Escrow Agreement or FMI Escrow Agreement;

"**Facility Letter**" means the facility letter entered into by the Partnership on February 26, 2008, as amended and/or amended and restated on October 8, 2008, May 27, 2009, January 14, 2010, June 25, 2010, August 17, 2010 and October 12, 2010 in respect of the Senior Credit Facility;

"**FMI**" means Fluids Management II, Ltd.;

"**FMI Acquisition**" means the acquisition by CESTC of all of the drilling fluids business assets of FMI and certain additional assets relating to FMI from two affiliates of FMI, Brookshire Investment Trust and Stikley Enterprises, Inc.;

"**FMI Business Acquisition Agreement**" means the business acquisition agreement dated June 22, 2010, between CESTC, AES, FMI, James Sherman and Kathryn Sherman;

"**FMI Escrow Agreement**" means the escrow agreement among FMI, AES, CESTC and the Escrow Agent pursuant to the FMI Acquisition;

"**General Partner**" means Canadian Energy Services Inc., a corporation incorporated under the ABCA and the general partner of the Partnership;

"**General Partnership Interest**" means the 0.01% general partnership interest in the Partnership held by the General Partner;

"**HSBC**" means HSBC Bank Canada;

"**IFRS**" means International Financial Reporting Standards;

"**Impact**" means Impact Fluid Systems Inc., a corporation incorporated under the ABCA;

"**Impact Vendor Group**" means the members of the Vendor Group in respect of Impact;

"**IPO**" means the initial public offering of the Partnership that was completed on March 2, 2006;

"**Management**" means the senior officers of CESTC (and includes, as the context permits, the senior officers of the General Partner);

"**NAM**" means North American Market;

"**Nevaro**" means Nevaro Capital Corporation, a corporation incorporated under the CBCA;

"**Newco**" means 7280157 Canada Ltd., a corporation incorporated under the CBCA and which changed its name to "Nevaro Capital Corporation" pursuant to the Arrangement;

"**Partnership**" means Canadian Energy Services L.P., a limited partnership formed under the laws of the Province of Ontario;

"**Partnership Agreement**" means the limited partnership agreement dated January 13, 2006, as amended and restated as of March 2, 2006 and January 1, 2010, between the General Partner and CESTC and as may be further amended, supplemented or replaced from time to time;

"**Partnership Loan Amount**" means the aggregate amount payable pursuant to the Partnership Loan Promissory Note, which amount is equal to $2,800,000;

"**Preferred Shares**" has the meaning ascribed thereto under the heading "Description of Capital Structure" herein;

"**Partnership Loan Promissory Note**" means the promissory note of Nevaro, in an aggregate principal amount equal to the Partnership Loan Amount, issued in favour of the Partnership pursuant to the Arrangement in consideration of the loan to Nevaro by the Partnership of an amount equal to the Partnership Loan Amount;

"**Prospectus**" means the final prospectus of the Partnership dated February 21, 2006;

"**Purchased Assets**" means all of the assets, business, property and undertaking of each of the Vendors, other than certain excluded assets, acquired by the Partnership from the Vendors pursuant to the Asset Purchase Agreements;

"**SAGD**" means steam assisted gravity drainage, a tertiary recovery process used primarily in oilsands and heavy oil operations;

"**Securityholders Agreement**" means the agreement entered into among the Partnership, the General Partner, the Trustee and each of the Vendors providing for, among other things, the procedures relating to the election of certain members of the Board of Directors of the General Partner;

**"Senior Credit Facility"** means the Partnership's senior credit facilities with the HSBC consisting of a revolving demand loan with a maximum available draw of $80.0 million; two fixed term loans in the aggregate amount of $2,067,422, a non revolving demand loan in the amount of $1,916,666, a leasing facility in the amount of $5.0 million, an electronic funds transfer facility in the amount of $1.0 million, a MasterCard override facility in the amount of $0.5 million, and a foreign exchange loan in the amount of $2.5 million;

"**Shareholders**" means the holders of Common Shares from time to time;

"**Subordinated Class B Units**" means the Class B Subordinated limited partnership units of the Partnership;

"**Tax Act**" means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder;

"**Trust Agreement**" means the trust agreement entered into among the initial shareholder of the General Partner, who was the settlor of the trust created by the Trust Agreement, and the Trustee, as amended effective January 1, 2010;

"**Trustee**" means Computershare Trust Company of Canada, as trustee of all of the issued and outstanding shares of the General Partner under the Trust Agreement;

"**TSX**" means the Toronto Stock Exchange;

"**TSXV**" means the TSX Venture Exchange Inc.;

"**Unitholders**" means the holders of Units from time to time;

"**Units**" means, collectively, the Class A Units and the Subordinated Class B Units;

"**US**" means United States of America;

"**US Acquisitions**" means, collectively, the Champion Acquisition and the FMI Acquisition;

"**Vendors**" means, collectively, Impact and CFS and "**Vendor**" means either one of them;

"**Vendor Group**" means, in respect of each Vendor, the Vendor and any shareholder, associate or affiliate of such Vendor, any shareholder of a corporate shareholder of a Vendor, or any beneficiary of a trust that is a shareholder of a corporate shareholder of a Vendor, including any family member of a shareholder of such Vendor or any company, trust or other entity owned by or maintained for the benefit of any such person and "**Vendor Groups**" means, collectively, the Vendors and the members of each Vendor's Vendor Group; and

"**WCSB**" means the Western Canadian Sedimentary Basin.

**Unless otherwise indicated, references in this Annual Information Form to "$" or "dollars" are to Canadian dollars.**

**All information in this Annual Information Form is presented as of December 31, 2010, unless otherwise indicated.**

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this Annual Information Form may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, 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 Annual Information Form, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. This forward-looking information reflects the Corporation's current expectations regarding future events and operating performance and speaks only as of the date of this Annual Information Form. Forward-looking information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily provide 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 and under "Risk Factors". Although the forward-looking information contained in this Annual Information Form is based upon what Management believes are reasonable assumptions, the Corporation cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this Annual Information Form, and subject to applicable securities laws, the Corporation assumes no obligation to update or revise such information to reflect new events or circumstances.

In particular, this Annual Information Form contains forward-looking information pertaining to the following:

- uncertainty, frequency and amount of the payment of dividends of the Corporation;
- designation of dividends as "eligible dividends" under the Tax Act;
- capital expenditure programs and increases in the Corporation's equipment base;
- projections of market prices and costs;
- supply and demand for oilfield services and industry activity levels;
- expectations regarding the Corporation's ability to raise capital;
- expectations regarding the Corporation's lender's ability to continue to fund debt;
- amounts to be retained by the Corporation for capital expenditures and to manage seasonal fluctuations in operating cash flow;
- crude oil and natural gas prices;
- oil and natural gas drilling activity;
- marketing personnel;
- treatment under governmental regulatory regimes;
- dependence on equipment suppliers and equipment improvements;
- dependence on personnel;
- availability of required supplies;
- collection of accounts receivable;
- operating risk and liability;
- expectations regarding expansion of services and increased market share in the US natural gas shale plays;
- expectations regarding annual revenue growth in 2011 attributable to CESTC's US operations;
- expectations regarding improved activity levels throughout 2011;
- expectations regarding market prices and costs;
- potential impact of IFRS adoption on financial results;
- results and impact of legal proceedings involving the Corporation or its subsidiaries;
- expansion of services and operations in Canada, the United States and internationally; and
- competitive conditions.

The Corporation's actual results could differ materially from those anticipated in such forward-looking information as a result of the risk factors set forth below and elsewhere in this Annual Information Form (see "Risk Factors"):

Risks relating to the Corporation and its business:

- volatility of industry conditions;
- seasonality;
- alternatives to and changing demands for hydrocarbon products;
- royalty rate changes;
- sources, pricing and availability of products and third-party services;
- credit risk;
- debt service;
- government regulation;

- environmental liability;
- regulations relating to reduction of greenhouse gases;
- operating risks and insurance;
- current and possible future capital market conditions, including global financial conditions;
- vulnerability to market changes;
- proprietary technology;
- risk of third-party claims for infringement;
- agreements and contracts;
- reliance on significant clients;
- reliance on key personnel;
- competition;
- acquisition and development risks;
- risks relating to the US Acquisitions;
- ability to achieve profitability and manage growth;
- potential replacement or reduced use of products and services;
- performance of obligations;
- risks relating to disclosure controls and procedures and internal control over financial reporting;
- risks relating to forward-looking information proving inaccurate;
- legal proceedings;
- uninsured or underinsured losses;
- dependence on capital markets to fund growth strategy;
- unpredictability and volatility of trading prices of the Common Shares;
- uncertainty, frequency and amount of dividends;
- leverage and restrictive covenants;
- restrictions on potential growth;
- future sales of Common Shares by CFS or the Impact Vendor Group;
- issuance of additional Common Shares by CESTC;
- income tax status;
- changes in laws;
- adoption of IFRS, which may adversely impact reported financial results;
- conflicts of interest;
- third-party credit risk relating to the Conversion Transaction;
- due diligence with respect to the Conversion Transaction;
- tax-related risks associated with the Conversion Transaction; and
- operational risks relating to Nevaro.

## STRUCTURE OF CANADIAN ENERGY SERVICES & TECHNOLOGY CORP.

### Canadian Energy Services & Technology Corp.

CESTC was incorporated under the CBCA on November 13, 1986 under the name "Senn D'Or Inc." with authorized capital comprising an unlimited number of Class "A" shares without par value. Pursuant to Articles of Amendment dated September 16, 1992, CESTC was authorized to issue up to 10,000,000, 8% non-cumulative, redeemable, non-voting Class "B" Shares with a stated capital of $0.001 per Class "B" Share. Effective August 27, 1993, CESTC changed its name to "Venoro Gold Corp." and subdivided its issued share capital on the basis of three new common shares of Venoro Gold Corp. for each issued common share. Effective December 3, 1997, CESTC changed its name to "New Venoro Gold Corp." and consolidated its share capital on the basis of eight old common shares for one new common share. Effective January 20, 2000, CESTC amended its articles to change the designation of the existing Class "A" voting shares without nominal or par value to Common Shares without par value and to eliminate the Class "B" non-voting shares.

Effective May 1, 2000, CESTC changed its name to Vanteck (VRB) Technology Corp. and effective January 17, 2003, Vanteck (VRB) Technology Corp. changed its name to VRB Power Systems Inc. to more accurately reflect the nature of its then business. The common shares of VRB Power Systems Inc. were publicly listed on the TSXV under the trading symbol "VRB". The TSXV halted trading on the VRB Power Systems Inc. shares on November 21, 2008 upon the Corporation announcing that it was seeking creditor protection under the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**"). Effective July 23, 2009 the Corporation changed its name to "Nevaro Capital Corporation". The TSXV assigned Nevaro the trading symbol "NVO" effective August 24, 2009. Pursuant to a special resolution passed by shareholders on June 26, 2009 and pursuant to TSXV bulletin dated September 14, 2009, Nevaro consolidated all of its issued and outstanding common shares (the "**Pre-Consolidation Shares**") on the basis of one new common share (a "**Consolidated Share**") for each 5,000 Pre-Consolidation Shares. Immediately after the consolidation, Nevaro subdivided or split all of the Consolidated Shares on the basis of 250 new common shares for each whole Consolidated Share being subdivided.

The Conversion Transaction became effective January 1, 2010 wherein and pursuant to articles of arrangement filed under the CBCA: (i) all of the former shareholders of Nevaro ceased to become shareholders of Nevaro and became shareholders of Newco; (ii) all of the Divested Assets were transferred to Newco and Newco assumed all of the liabilities of Nevaro (other than the Partnership Loan Promissory Note); (iii) all of the Units were acquired by CESTC and exchanged for Common Shares on a one for one basis; (iv) all of the common shares of the General Partner were acquired by CESTC; and (v) Nevaro changed its name to "Canadian Energy Services & Technology Corp.". Following completion of the Conversion Transaction the former business of the Partnership is carried on by CESTC directly and indirectly through the Partnership and CESTC's other subsidiaries.

Complete details of the terms of the Arrangement Agreement, the Arrangement and the Conversion Transaction, are set out in the Information Circular filed under the Corporation's SEDAR profile at www.sedar.com.

The Common Shares are listed and posted for trading on the TSX under the symbol "CEU". The head office of CESTC is located at 900, 715 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 2X6, and its registered office is located at 800, 400- 3rd Avenue S.W., Calgary, Alberta, Canada, T2P 4H2. See "Business of the Corporation" and "Description of Capital Structure".

### Canadian Energy Services L.P.

The Partnership commenced operations on March 2, 2006, by completing the acquisition of the Drilling Fluid Systems Business and the IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit. The Partnership is a limited partnership that was originally formed on January 13, 2006 under the *Limited Partnerships Act* (Ontario). The Partnership was organized in accordance with, and is governed by the terms and conditions of, the Partnership Agreement. All of the issued and outstanding units of the Partnership are directly owned by CESTC. The General Partner holds a 0.01% general partnership interest in the Partnership. The Partnership's business and affairs are managed by the General Partner. Prior to the Conversion Transaction the Partnership's Class A Units were listed and posted for trading on the TSX under the symbol "CEU.UN". The Class A Units were delisted from the TSX on January 7, 2010 and the Common Shares were listed in substitution thereof under the trading symbol "CEU".

**Canadian Energy Services Inc.**

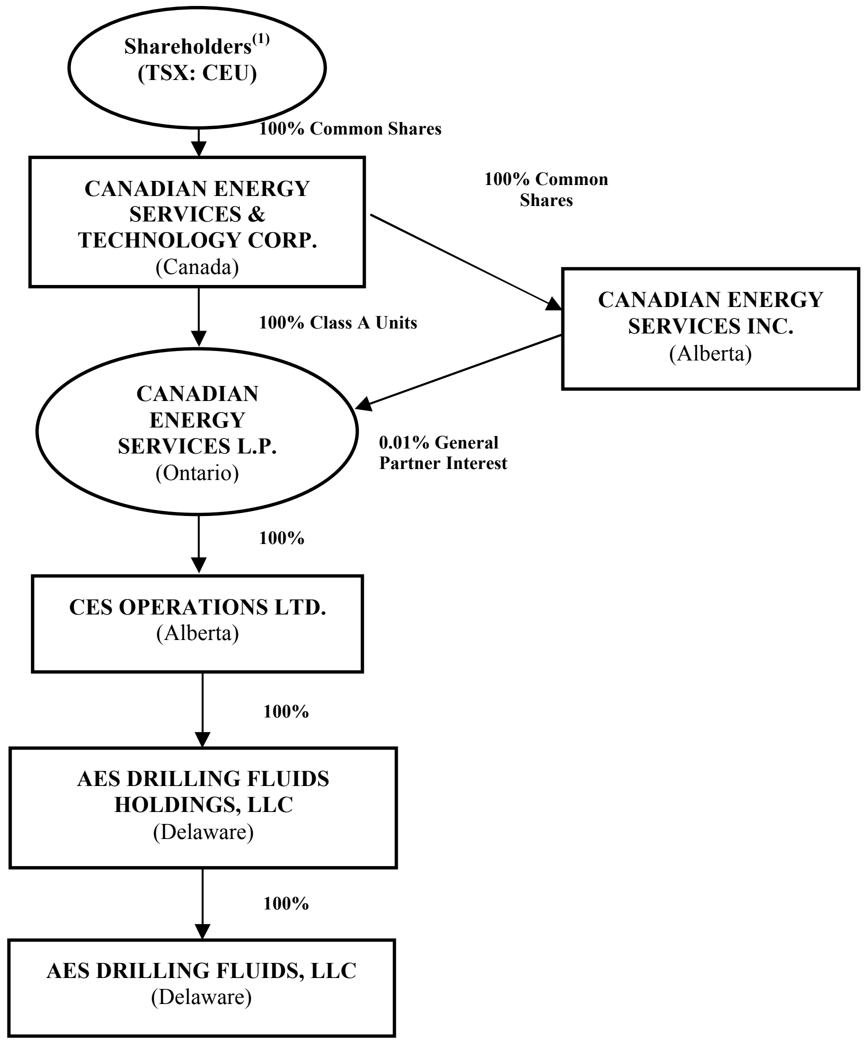
The General Partner was incorporated on December 9, 2005 under the ABCA. The General Partner is responsible for the administration and management of the Partnership and carries out the objects, purposes and business of the Partnership. The General Partner does not hold any material assets other than legal title to certain assets for the sole benefit of the Partnership and in accordance with the Partnership Agreement. The General Partner owns the 0.01% General Partnership Interest in the Partnership. All of the issued and outstanding common shares of the General Partner are directly owned by CESTC.

**Other Subsidiaries**

CES Operations Ltd., a wholly-owned subsidiary of the Partnership, was incorporated under the ABCA on September 22, 2006. AES Drilling Fluids Holdings, LLC, a Delaware limited liability company of which CES Operations Ltd. is the sole shareholder, was formed on January 18, 2011, and its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware, USA 19801. AES Drilling Fluids, LLC, a Delaware limited liability company of which AES Drilling Fluids Holdings, LLC is the sole shareholder, was formed on November 28, 2006. Each of CES Operations Ltd., AES Drilling Fluids Holdings, LLC and AES Drilling Fluids, LLC were formed in connection with the Partnership's operational expansion strategy into the United States. The United States operations are managed from three main offices: the Rockies division located at 1625 Broadway, Suite 1480, Denver, Colorado, USA 80202; the mid-continent division which operates as Champion Drilling Fluids, a division of AES located at 708 N.W. 24th Ave, Norman, Oklahoma, USA 73069; and the Fluids Management, a division of AES, located at Suite 230, 11767 Katy Freeway, Houston, Texas, USA 77079.

**Intercompany Relationships as at March 17, 2011**

The following diagram sets forth the organizational structure of CESTC:




**Note:**

(1) Pursuant to the Conversion Transaction, Unitholders of the Partnership became shareholders of CESTC (formerly Nevaro) and CESTC acquired all of the Class A Units and all of the common shares of the General Partner.

## GENERAL DEVELOPMENT OF THE BUSINESS

*Drilling Fluids Business*

The core business of the Corporation is to design and implement drilling fluid systems for North American based oil and natural gas producers. CESTC operates throughout the NAM and in particular in the Western Canadian Sedimentary Basin ("**WCSB**") and in the United States ("**US**"), with an emphasis on servicing the ongoing major resource plays. CESTC operates its drilling fluids business as Canadian Energy Services and Moose Mountain Mud in the WCSB and as AES Drilling Fluids, Champion Drilling Fluids, and Fluids Management in the US.

The drilling of the major resource plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling can be utilized in “tight” formations like shale gas/oil, in the oilsands (SAGD) and in heavy oil. 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. The Corporation's 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. The Corporation markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

*Environmental Services*

Clear Environmental Solutions ("**Clear**"), CESTC's environmental division, provides 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 to carry out various related services necessary to dispose of drilling fluids.

*Trucking*

EQUAL Transport ("**EQUAL**"), CESTC's transport division, provides its customers with the necessary 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: one located in Edson, Alberta, and one located in Carlyle, Saskatchewan.

*Chemical Blending – Production Chemicals and Drilling Fluid Chemicals*

Purechem Services (“**Purechem**”), CESTC’s chemical blending division manufactures and sells both drilling fluid products and production chemicals. The Purechem manufacturing facility is located in Carlyle, Saskatchewan and commenced operations in Q1 2011. Purechem is a complimentary business to both CESTC’s drilling fluids business and EQUAL’s production hauling businesses in Canada. In the US, the Fluids Management division also produces and blends its own set of proprietary drilling fluid products which provides synergies and experience to Purechem.

The primary business of CESTC remains the supply of drilling fluids and drilling fluids systems.

**2006**

*Initial Public Offering and Acquisition of Drilling Fluids Business*

The Partnership commenced operations on March 2, 2006, by completing the acquisition of the Drilling Fluid Systems Business and the IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit, for aggregate gross proceeds of $58.9 million and net proceeds of approximately $53.6 million after deducting offering expenses and underwriters' commission of approximately $5.3 million.

The Drilling Fluid Systems Business was acquired for an aggregate purchase price of $80.7 million, plus an aggregate working capital adjustment of $6.0 million. This total purchase price of $86.7 million was funded by: (i) the payment of $50.6 million in Acquisition Notes (which were immediately repaid upon closing of the IPO); (ii) the issuance of an aggregate of 860,594 Class A Units and of 2,151,486 Subordinated Class B Units to the Vendors at the IPO price of $10 per Unit; and (iii) the issuance of a Convertible Note to each of the Vendors in the amount of $3.0 million to account for the working capital adjustment. The Subordinated Class B Units issued to the Vendors in connection with the Acquisition are non-transferable (except among members of a Vendor Group) and were exchanged into Class A Units subsequent to expiry of the subordination period on March 2, 2009.

*United States Expansion*

In connection with the Partnership's United States operational expansion plans, the Partnership incorporated a wholly-owned subsidiary, CES Operations Ltd., which in turn incorporated AES Drilling Fluids, LLC ("**AES**"), a Delaware limited liability company.

**2007**

*Amendments to Tax Legislation Affecting the Partnership*

On October 31, 2006, the Minister of Finance announced the Federal government's plan to change the tax treatment of specified investment flow-through trusts and publicly traded limited partnerships (the "**SIFT Rules**"). Now enacted, the SIFT Rules impose a tax at the trust or partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax rate and treats such distributions as dividends to unitholders. Trusts and partnerships that were publicly traded at the time of the announcement were generally entitled to a four-year transition period and were not subject to the SIFT Rules until 2011, provided such entities experienced only "normal growth" and no "undue expansion before that time in accordance with the guidelines issued by the Minister of Finance. The SIFT Rules had an immediate impact on the Canadian capital markets and resulted in a significant decline in trading prices for limited partnerships, including the Partnership, income trusts, royalty trusts and numerous other Canadian securities.

On July 14, 2008, the Minister of Finance announced proposed amendments to the Tax Act, including technical amendments to clarify certain aspects of the SIFT Rules and to provide rules to facilitate the conversion of existing SIFT partnerships into corporations on a tax-deferred basis (the "**Conversion Rules**"). The Conversion Rules address many of the principal substantive and administrative issues that arise when structuring a corporate conversion of a partnership under the Tax Act. Bill C-10, which received Royal Assent on March 12, 2009, contained legislation implementing the Conversion Rules.

The Conversion Transaction, which was completed on January 1, 2010, was undertaken to convert the Partnership into a corporation. The Partnership investigated a number of restructuring alternatives subsequent to the Minister of Finance's October 31, 2006 announcement and the subsequently enacted SIFT Rules and Conversion Rules. The Partnership undertook the Conversion Transaction as the limited partnership structure restricted the ability of the Partnership to grow in the United States. The primary reason for the Conversion Transaction was to allow CESTC to access capital and grow its business in jurisdictions other than Canada. Under the former limited partnership structure, 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 the Partnership. The Partnership had 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, the Partnership was required to alter its legal structure in order to facilitate this issuance of equity to US citizens. In September 2009, the Partnership identified a transaction with Nevaro as an opportunity to achieve its strategic objectives of providing long-term stability of distributions for Unitholders while minimizing the impact of the SIFT Rules and enhancing value for Unitholders. Consequently, on November 10, 2009, the Partnership entered into the Arrangement Agreement with Nevaro, pursuant to which the Partnership converted from a partnership structure to a corporation pursuant to the Arrangement effective January 1, 2010.

*Expansion of Trucking Services and United States Operations*

In late 2007 the Partnership, through its EQUAL Transport division, completed the construction of its Edson, Alberta, trucking, warehousing and tank farm facility. This operation is key to CESTC's strategy to integrate the trucking of products and fluids to customers' well sites and capture incremental revenue and related profit.

In the fourth quarter of 2007, the Partnership started to operate in the United States through its wholly-owned indirect subsidiary, AES, and since started to build a team to actively pursue targeted markets.

**2008**

*Senior Credit Facility*

On February 26, 2008, the Partnership entered into the Facility Letter providing for the Partnership's Senior Credit Facility, which was further amended and/or amended and restated on October 8, 2008, May 27, 2009, January 14, 2010, June 25, 2010, August 17, 2010 and October 12, 2010.

The Senior Credit Facility is secured by general security agreements creating a security interest in all present and after-acquired personal property of CESTC, the General Partner, the Partnership, AES and CES Operations Ltd., an unlimited corporate guarantee of the indebtedness, obligations and liabilities of the Partnership to HSBC given by each of the General Partner, CESTC, AES and CES Operations Ltd., together with a demand collateral mortgage on CESTC's Edson, Alberta, property, and a demand collateral mortgage on CESTC's Moose Mountain, Saskatchewan properties.

*2008 Prospectus Financing*

On May 22, 2008, the Partnership entered into an underwriting agreement (the "**2008 Underwriting Agreement**") with a syndicate of underwriters led by Cormark Securities Inc. and including National Bank Financial Inc., Thomas Weisel Partners Canada Inc., Dundee Securities Corporation and Paradigm Capital Inc., pursuant to which the underwriters agreed to purchase, on a bought deal basis, 1,122,000 Class A Common limited partnership units of the Partnership ("**Class A Units**") at a price of $10.25 per Class A Unit for aggregate gross proceeds to the Partnership of approximately $11.5 million (the "**2008 Offering**"). The Partnership also granted the underwriters an option (the "**Over-Allotment Option**") exercisable in whole or in part for up to 30 days following the closing of the 2008 Offering to purchase up to an additional 112,200 Class A Units to cover over-allotments, if any, for additional gross proceeds to the Partnership of $1,150,050. A portion of the proceeds were allocated to pay for a portion of the purchase price of the Clear Acquisition, with additional funds being allocated to the Partnership's 2008 capital budget. The 2008 Offering closed on June 5, 2008, with the Partnership raising total gross proceeds of $12,650,550, including the exercise in full of the Over-Allotment Option.

*Acquisition of Clear Environmental Solutions*

On May 22, 2008, the Partnership and Clear Environmental Solutions Inc. ("**Clear**") entered into the Clear Business Acquisition Agreement pursuant to which the Partnership agreed to acquire all of the business and assets of Clear, being comprised of accounts receivable, computers, fixtures, furniture, goodwill and various other intangible assets of Clear. Pursuant to the Clear Business Acquisition Agreement, the Partnership assumed certain liabilities of Clear, including the accounts payable of Clear and such other ordinary course operating liabilities of Clear that arose prior to the completion of the Clear Acquisition. The Clear Business Acquisition Agreement contains representations and warranties of Clear and the Partnership which are typical to asset purchase transactions in the oil and gas services industry. The representations and warranties set forth in the Business Acquisition Agreement survived for 24 months from the date of closing of the Clear Acquisition. The Clear Business Acquisition Agreement also contains industry standard indemnification provisions, including mutual indemnities by Clear and the Partnership for misrepresentations or breaches of warranties or the failure to perform or observe the covenants or agreements thereunder.

The purchase price paid by the Partnership to Clear pursuant to the Clear Business Acquisition Agreement was $11.5 million, of which $7.6 million was paid in cash with the balance paid through the issuance of 380,488 Class A Units priced at a deemed price of $10.25 per Class A Unit. The Class A Units comprising the Unit portion of the consideration for the Clear Acquisition are subject to a contractual escrow agreement (the "**Clear Escrow Agreement**") among Clear, the Partnership and the Escrow Agent, which agreement was entered into concurrently with closing of the Clear Acquisition. The Clear Escrow Agreement provides that the certificates representing the Class A Units held in escrow pursuant to the Clear Escrow Agreement were released to Clear as to one half on June 12, 2009, and as to the balance on June 12, 2010, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Partnership. See "Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer".

Clear was also eligible to receive a single earn-out payment of up to a maximum of $2.0 million (the "**Earn-Out Payment**"). The Earn-Out Payment was determined by subtracting $2.4 million from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the 12-month period beginning July 1, 2008 and multiplying the positive result, if any, by a four times multiple. $1.8 million of the Earn-Out Payment was satisfied by the issue of 223,054 Class A Units to Clear or its assignees on August 28, 2009. Such Class A Units were issued at a price per Class A Unit equal to the weighted average trading price of the Class A Units on the TSX for the ten trading days preceding (but not including) the payment date, being a per Class A Unit price of $8.04. The remaining $0.2 million Earn-Out Payment was settled in cash February 12, 2010.

The Clear Acquisition closed on June 12, 2008. Following the close of the Clear Acquisition, certain key personnel of Clear entered into employment agreements with the General Partner, on behalf of the Partnership, to continue to lead the development of the drilling fluids waste management business formerly conducted by Clear. Following completion of the Clear Acquisition, the Partnership continues to carry on the acquired business under the name "Clear Environmental Solutions".

**2009**

*Subordination Period Expiry*

The subordination period relating to the Subordinated Class B Units expired on March 1, 2009, pursuant to the terms of the Partnership Agreement. Upon the expiration of the subordination period, distributions to the holders of the Subordinated Class B Units and Class A Units were payable monthly on a proportionate basis commencing on the March 31, 2009, record date, subject to the terms of the Partnership Agreement and at the discretion of the Board of Directors. Following March 1, 2009, all of the 2,151,486 issued and outstanding Subordinated Class B Units were exchanged for an equivalent number of Class A Units.

*Conversion Transaction*

On November 10, 2009, the Partnership entered into the Arrangement Agreement with Nevaro whereby it was converted from a limited partnership structure to a dividend paying corporation pursuant to the Arrangement. The Arrangement became effective January 1, 2010.

Pursuant to the Arrangement, as of the Effective Date the Class A Units of the Partnership and the common shares of the General Partner were transferred to Nevaro (now CESTC), which now carries on the businesses of the Partnership, and the Unitholders of the Partnership received one (1) Common Share for each Class A Unit held. In addition, the assets and liabilities of Nevaro (other than the Partnership Loan Promissory Note) were transferred to Newco, which subsequent to the Effective Date carries on Nevaro's former businesses is owned by the former shareholders of Nevaro. Following completion of the Arrangement, CESTC did not retain any interest in the businesses of Nevaro and former Nevaro shareholders did not retain any interest in the businesses of the Partnership (or CESTC). See also "Structure of Canadian Energy Services & Technology Corp.".

In connection with the Arrangement, the Trust Agreement and the Securityholders Agreements were terminated and the name of Nevaro was changed to "Canadian Energy Services & Technology Corp.".

Complete details of the terms of the Arrangement Agreement, the Arrangement and the Conversion Transaction, are set out in the Information Circular filed under the Partnership's SEDAR profile at www.sedar.com.

*Acquisition of Champion Drilling Fluids*

On November 26, 2009, the Partnership and AES entered into the Champion Business Acquisition Agreement pursuant to which it agreed to acquire all of the business assets of Champion, a private Oklahoma-based drilling fluids company. On November 30, 2009, the Partnership and AES closed the Champion Acquisition for a purchase price of US$16.4 million. The Champion Acquisition is strategically aligned with CESTC's long-term business plan to pursue growth opportunities in the United States.

Total consideration for the Champion Acquisition, excluding transaction costs, was US$16.4 million, consisting of US$7.8 million in net cash consideration after a working capital adjustment, plus US$2.3 million in additional deferred acquisition consideration, and US$6.3 million balance payable through the issuance of the Champion Debenture. US$2.0 million of the additional deferred acquisition consideration is payable in cash upon the earlier of the second anniversary of the closing of the Champion Acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the United States. The face value of the Champion Debenture was $6.6 million with fixed a conversion price of C$8.37 per CESTC common share and paid interest monthly at 12% per annum. The Champion Debenture was subject to forced conversion into 791,776 Common Shares of CESTC upon completion of the Conversion Transaction. The Conversion Transaction became effective January 1, 2010. The Common Shares issued upon the completion of the Conversion Transaction are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard exceptions including a change of control of CESTC, on each of the first, second and third anniversaries after closing of the Champion Acquisition. See "Escrowed Securities".

The cash payable at closing of the Champion Acquisition was funded through the Senior Credit Facility.

Following the closing of the Champion Acquisition, certain key personnel of Champion entered into employment agreements with AES, to continue to lead the development of the drilling fluids business in the United States. Further information regarding the Champion Acquisition is set forth in the business acquisition report of CESTC dated February 16, 2010, which is available on CESTC's SEDAR profile at www.sedar.com.

*2009 Offering*

On November 26, 2009, the Partnership entered into a private placement financing agreement, on a bought-deal basis, with an underwriting syndicate led by RBC Dominion Securities Inc. and Cormark Securities Inc. and including FirstEnergy Capital Corp., Thomas Weisel Partners Canada Inc., Wellington West Capital Markets Inc., HSBC Securities (Canada) Inc. and Paradigm Capital Inc., pursuant to which the Partnership issued and the underwriters purchased 1,000,000 Class A Units at a price of $10.00 per Class A Unit for aggregate gross proceeds of $10 million (the "**2009 Offering**").

The 2009 Offering closed on December 15, 2009. The Partnership used a portion of the gross proceeds of the 2009 Offering to fund a portion of the purchase price of the Champion Acquisition.

**2010**

*Acquisition of Fluids Management II, Ltd.*

On June 22, 2010, CESTC and its wholly-owned indirect subsidiary AES entered into the FMI Business Acquisition Agreement with FMI, James Sherman and Kathryn Sherman, pursuant to which CESTC purchased all of the drilling fluids business assets of FMI, and certain additional assets relating to FMI from two affiliates of FMI, Brookshire Investment Trust and Stikley Enterprises, Inc. The FMI Acquisition subsequently closed on June 30, 2010.

FMI is headquartered in Houston, Texas, and is one of the leading independent full-service drilling fluids companies in the U.S. FMI was established in 1996 and provides drilling fluid solutions for a large number of leading oil, natural gas, and unconventional natural gas developers operating primarily in Texas, Louisiana, West Virginia and Pennsylvania, and offshore in the Gulf of Mexico. FMI employees and management have extensive experience and have built the business over time with a focus on continued profitability and revenue growth. The company has a strong customer base of over 30 clients and proven technical capabilities in delivering high quality drilling fluid products and services. Additionally, FMI is an industry leader in supplying environmentally superior synthetic invert fluids for onshore use. Through a network of stock points and established infrastructure, FMI has built a platform to service its drilling fluids customers. The FMI Acquisition is strategically aligned with CESTC's long-term business plan to pursue growth opportunities in the United States.

Further information regarding the FMI Acquisition is set forth in the business acquisition report of CESTC dated August 16, 2010, which is available on CESTC's SEDAR profile at www.sedar.com.

*2010 Offering*

CESTC entered into a private placement financing agreement dated effective June 22, 2010, on a bought-deal basis, with an underwriting syndicate led by Cormark Securities Inc. and including Thomas Weisel Partners Canada Inc., FirstEnergy Capital Corp., RBC Dominion Securities Inc., Wellington West Capital Markets Inc., HSBC Securities (Canada) Inc., and Paradigm Capital Corp., pursuant to which CESTC issued and the underwriters purchased a total of 2,905,000 subscription receipts ("**Subscription Receipts**") at $15.50 per Subscription Receipt for gross proceeds of $45,027,500 (the "**2010 Offering**").

The proceeds of the 2010 Offering (the "**Escrowed Funds**") were released to CESTC upon the satisfaction of the escrow release conditions, including closing of the FMI Acquisition and obtaining shareholder approval to the issuance of the common shares underlying the Subscription Receipts (the "**Escrow Release Conditions**"). All of the outstanding Subscription Receipts were deemed to be exercised effective September 7, 2010, in accordance with the subscription receipt indenture governing the Subscription Receipts, without further action on the part of the holder or any additional consideration.

The net proceeds of $42.7 million after underwriter fees and costs, of the 2010 Offering were used by CESTC to repay indebtedness incurred in connection with the FMI Acquisition, including the US$40 million drawn on bank financing to initially finance the cash portion of the purchase price of the FMI Acquisition, pay the expenses related to the 2010 Offering and general corporate purposes.

*Expansion into Production Chemicals and Drilling Fluid Chemicals*

In June 2010, CESTC through its Purechem division began construction of a chemical blending facility and warehouse in Carlyle, Saskatchewan. Purechem is CESTC's chemical blending division which will manufacture and sell both drilling fluid products and production chemicals. In Q1 2011 CESTC completed the construction of the manufacturing facility and commenced operations. Purechem is a complimentary business to both CESTC's drilling fluids business and EQUAL's production hauling businesses in Canada.

## INDUSTRY OVERVIEW

### Overview

The upstream oil and natural gas industry in Canada and the United States is largely comprised of two types of entities: (i) exploration and production entities ("**Operators**"); and (ii) oilfield service entities. Operators generally explore for, develop and produce oil and natural gas reserves. Oilfield service entities generally provide services, products and equipment to assist exploration and production entities in their efforts to explore, develop and produce oil and natural gas reserves. CESTC is an oilfield service provider supplying drilling fluid systems, drilling fluid technical expertise, supporting laboratory services, production of drilling fluid chemicals, trucking capacity and drilling fluid waste management services to Operators to assist in the drilling component of their business. The vast majority of oil and natural gas wells drilled require drilling fluids. Deep wells and other technically complex wells, including wells drilled horizontally, require sophisticated drilling fluid systems, a high level of drilling fluid expertise and technical support. In addition CESTC produces and sells production chemicals to assist Operators in the efficient production of hydrocarbons from their producing wells.

Demand for oilfield services, including drilling fluid systems, trucking and drilling fluid waste management services, is closely correlated with overall oil and natural gas drilling activity and the related capital expenditure budgets of exploration and production entities. Operators base their capital expenditures on many factors, including, but not limited to, hydrocarbon commodity prices, production levels of their current reserves, exploration and development opportunities, political climates and access to both debt and equity capital. Activity levels within the oil and natural gas industry are ultimately affected by the above factors. See "Risk Factors".

An effective drilling fluid system, though representing a relatively small proportion of the overall cost of drilling, can reduce time to drill, increase wellbore stability and maximize recovery from the reservoir, which ultimately impacts the economic return of the well. Given the significant economic benefits that drilling fluids can provide, service providers that have the technical expertise and experience to provide optimal drilling fluid systems are valuable to exploration and production entities.

Prior to November 30, 2009, the Corporation's operations had been conducted primarily within the WCSB, in the provinces of Alberta, British Columbia, Saskatchewan and Manitoba. Expansion into the United States commenced organically in 2008 and was accelerated beginning in late 2009 as a result of the US Acquisitions which have diversified the exposure of the business geographically throughout the NAM. The success of the Corporation's business is directly correlated to the strength of the oil and natural gas industry in the NAM, and in particular, to the level of drilling activity of Operators in the NAM.

**Drilling Activity**

There had been consistent growth in Canadian drilling activity during 2003 through 2005. Starting in 2006, this trend reversed and year over year activity levels in WCSB declined into what appears to be a near-term bottoming of activity in 2009. Drilling activity picked-up in 2010. The Canadian Association of Oilwell Drilling Contractors ("CAODC") average monthly rig count for the WCSB averaged 327 as compared to 219 in 2009 representing a year-over-year increase of 49%. For 2011, the CAODC forecast of average monthly rig count for the WSCB calls for an average of 356.

In the US, according to statistics compiled by Baker Hughes, the recent drilling activity history has been very similar to that experienced in the WCSB. In 2008, the average active rig count in the US was 1,879. In 2009, it dropped to 1,089 over the period from 2008, and in 2010 it rose back to 1,546.

Operators in both the WCSB and the US continue to direct resources to resource plays that are often drilled deeper and horizontally, and have longer life reserves and production. In addition based on the current price of oil versus natural gas, capital and resources are being directed away from natural gas to either liquids rich natural gas or oil focused drilling activity. According to Baker Hughes, in January 2010 46% of the active drilling rigs in the WCSB were drilling for oil and 54% were drilling for gas; in February 2011 68% of the active drilling rigs were drilling for oil and only 32% were drilling for gas. In the US, in January 2010 35% of the active drilling rigs were drilling for oil and 65% were drilling for gas; in February 2011 46% of the active drilling rigs were drilling for oil and only 54% were drilling for gas.

The Corporation classifies oil and natural gas wells by depth for vertical wells and tracks horizontal wells as a single class, as follows:

- *shallow wells* – generally less than 1,000 metres;
- *medium wells* – generally between 1,000 and 2,500 metres;
- *deep wells* – generally greater than 2,500 metres; and
- *horizontal wells* – drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each.

Horizontal and deeper wells are faced with a range of drilling, stability, pressure and other issues which generally require a greater volume of drilling fluids, a more sophisticated drilling fluid system and a higher level of technical expertise from drilling fluid personnel. In addition, the complexity associated with horizontal wells also increases the importance of effective drilling fluid systems. Well-bore integrity is increasingly difficult to maintain as operators drill the "elbow" or "build" section of the horizontal leg. Accordingly, horizontal wells generally provide more attractive margins for drilling fluid systems providers as the drilling fluid has to be high-graded and becomes more complex to achieve successful drilling outcomes. The Corporation's focus and expertise relates primarily to horizontal wells, and vertical and directional wells which are greater than 1,500 metres. Management's experience has been that drilling fluid system profitability increases significantly with the depth and complexity of the well drilled.

The number of deep and horizontal wells drilled over the past few years has been increasing. In particular, Management believes the increased challenge to find new, substantial oil and natural gas reserves in the WCSB and the United States has led some Operators to focus on more complex and deeper reservoir targets.

Management believes that volatility in drilling activity can be attributed to a number of key factors, including, but not limited to, hydrocarbon commodity prices, access of Operators to debt and equity capital, availability of appropriately equipped drilling rigs, expanded use of non-conventional extraction and production techniques, such as SAGD, coal bed methane extraction and activity in previously uneconomic and marginally economic resource plays through multi-stage fracturing techniques applied in horizontal drilling.

**Finding and Development Costs**

Management believes the combination of the increased depth and complexity of wells being drilled and the challenge of finding and developing oil and natural gas reserves has led to increased finding and development costs. As Operators attempt to control costs, the use of effective oil and natural gas services becomes increasingly important. In particular, drilling fluid systems, while generally a small proportion of the overall cost of drilling, can significantly reduce costs and improve recovery economics for exploration and production entities. Effective drilling fluid systems can reduce the time to drill, increase wellbore stability and maximize recovery from the reservoir, which ultimately impacts the economic return of the well. Properly designed drilling fluid systems can also minimize the environmental impact of drilling operations and reduce environmental clean-up costs.

**Oilsands/SAGD**

SAGD is an extraction process which is used primarily in oilsands development and heavy oil operations and requires specialized drilling fluid solutions. The SAGD process typically involves drilling pairs of horizontal wells into oilsands or heavy oil reservoirs. The upper well injects steam into the deposit in order to heat the bitumen or heavy oil to improve its ability to flow. The oil then drains into the production well and is pumped to the surface. If SAGD usage grows, SAGD will be a source of increasing revenues for oil and natural gas service companies having expertise in this area. The Corporation provides drilling fluid systems to operators drilling wells for SAGD operations, primarily in northeast Alberta.

**Resource Plays**

A large portion of NAM Operators' drilling activity has been directed to previously uneconomic or marginally economic oil and natural gas accumulations that have recently become economically viable through the application of new technologies, like horizontal drilling and multi-stage fracturing. "Resource plays" typically involve large accumulations of oil or natural gas either over a large area and/or vertical section which are often characterized as "tight" having low productivity, permeability issues and/or susceptibility to formation damage. Resource plays can be profitable if drilled effectively and costs are controlled. Drilling fluid providers who have experience in developing drilling fluid systems for these types of reservoirs can assist Operators in minimizing costs and improving reservoir returns and wellbore stability. The Corporation has experience working in most of the relevant and active resource plays and provides drilling fluid systems to Operators in various areas throughout the NAM.

**Trends**

Contingent on overall drilling activity levels, Management expects the demand for the Corporation's services to continue to grow over time as drilling applications, like horizontal drilling, utilize more complex drilling fluids. The oil and natural gas industry has been subject to extreme volatility in recent years due to significant changes in demand for, and supply of, oil and natural gas. Many factors including the fluctuation in demand for oil and natural gas brought about by swings between global economic growth and contraction, have caused wide swings in commodity prices. In addition, political uncertainty, application of new technologies and certain natural disasters, such as hurricanes, throughout the world have contributed to supply swings. Crude oil prices have rebounded off their lows in early 2009 and appear to have stabilized within a pricing band that has resulted in Operators deploying more resources and capital to oil focused activities. This trend has been more pronounced in the WCSB but is a developing trend in the US as well. Natural gas prices continue to remain relatively weak in context to oil prices in recent history. Operators in the WCSB continue to be active in drilling for gas where there are economic associated natural gas liquids ("NGL's") which are generally sold in the context of the current oil price. In the US, Operators are increasingly focussing their activities on similar gas with associated liquids targets but there is still substantial drilling activity for dry gas in areas like the Marcellus, where the economics appear to be more attractive and drilling activity is further fuelled by land retention issues and joint-venture funded drilling programs.

See "Risk Factors – Risks Relating to the Corporation and its Business – Volatility of Industry Conditions" and "Risks Relating to the Structure of the Corporation—Cash Dividends".

**Seasonality**

Drilling activity in the WCSB is subject to seasonal fluctuations with peak activity levels often occurring between mid-November and mid-March. The annual drilling cycle can generally be separated into four time periods:

- *Mid-November through mid-March* – winter drilling season; this is the period when the majority of drilling activity takes place and exploration and production entities take advantage of the frozen landscape to access northern winter drilling locations.

- *Mid-March through mid-May* – spring break-up; the northern drilling locations thaw and southern lands become impractical for travel due to wet road conditions or road bans. Drilling activity is generally lower with exploration and production entities planning their summer drilling programs.

- *Mid-May through mid-October* – summer and fall drilling season; generally focused on non-northern areas that are accessible in the summer; summer drilling activity is medium to strong.

- *Mid-October to mid-November* – switchover to winter drilling season; characterized by lighter drilling activity when many exploration and production entities are moving off summer drilling locations and preparing winter drilling leases for delivery of equipment.

The Corporation's expansion into the US has mitigated some of the historical effects of seasonality on the Corporation as it is not a significant factor to drilling activity in the US.

**Environmental Regulations**

The global oil and natural gas industry in general, and the Corporation's business in particular, is subject to a complex and increasingly stringent array of laws addressing the actual and potential environmental impacts inherent to the business, including laws governing waste management and the transport, handling, use, deposit or release of potentially hazardous substances into the natural environment. Some of these laws assign potential liability for damages without regard to causation or fault, and provide for joint and several liability for clean-up and other costs in the event of new or historical spills, releases or deposits of hazardous and other substances, including wastes. Other environmental laws provide significant potential penalties for non-compliance, including imprisonment for the most extreme cases. The environmental legal regimes in Canada and the U.S. - which are comprised of a variety of federal, provincial, state and local laws - are among the most stringent in the world, and as a consequence, industry participants incur significant capital and operating costs to maintain compliance.

The elements of the Corporation's business that are subject to particular environmental regulatory oversight and potential liability include the blending, storage, transportation use and handling of fluids and chemicals (including a range of petroleum products), and our waste disposal services. For example, an accidental spill of fluid or chemicals by the Corporation or another party could attract liability for damages, including clean-up costs (through a government order, a civil claim by a third party, or both), and/or regulatory enforcement proceedings seeking penalties. Likewise in our waste disposal business, an accidental release or mishandling of waste causing damage could attract significant liability, as could the discovery of soil or groundwater contamination (whether or not caused by the Corporation) at any of our current or formerly owned or operated properties. In the U.S., and to a lesser extent in Canada, the environmental regime for waste also provides "cradle to grave" liability, so that in some cases waste disposed at a third party disposal site years earlier can later become the subject of government and civil claims for remediation. The Corporation does not expect to be a potentially responsible party in that kind of action but given the nature of our business, it remains a possibility in the future.

Because of the importance of environmental laws, the Corporation has compliance and monitoring programs in place and stays abreast of trends and legal developments that may impact our business. In that regard, the Corporation is sensitive to changes to the existing environmental legal regime, unexpected outcomes or more rigorous enforcement, all of which can have a material impact on the Corporation's operations and financial results either directly or through a substantial increase in exploration or production costs or delays for customers, which may result in less demand for the Corporation's services.

**Competition**

The NAM in which the Corporation operates is competitive and in order to be successful the Corporation must provide services that meet the specific needs of its clients. The principal competitive factors in the drilling fluid markets include reliability and performance of the drilling fluid system, service quality and availability, technical knowledge and experience, environmental and safety certification and price. Reliability and performance of a drilling fluid system is measured by the system's ability to enhance and improve production and to lower overall drilling time and costs. The Corporation's competitors offer similar services in all geographic regions in which the Corporation operates. See "Risk Factors – Risks Relating to the Corporation and its Business – Competition".

## BUSINESS OF THE CORPORATION

**Overview**

The core business of the Corporation is to design and implement drilling fluid systems for oil and natural gas producers. CESTC operates throughout the NAM and in particular in the WCSB and the US with an emphasis on servicing the ongoing major resource plays. CESTC operates its drilling fluids business as Canadian Energy Services and Moose Mountain Mud in the WCSB and as AES Drilling Fluids, Champion Drilling Fluids, and Fluids Management in the US.

The drilling of the major resource plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling can be utilized in tight formations like shale gas/oil and in the oilsands (SAGD) and in heavy oil. The designed 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. The Corporation's 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. The Corporation markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

Medium to deep and horizontal wells represented approximately 96% of the Corporation's drilling fluids revenue for the year ended December 31, 2010, approximately 96% of the Partnership's drilling fluids revenue for the year ended December 31, 2009 and approximately 97% of the Partnership's drilling fluids revenue for the period ended December 31, 2008.

On June 12, 2008, the Partnership added a drilling fluid waste management business through the Clear Acquisition. Clear provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. The business of Clear involves determining the appropriate processes for disposing of, or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids. In 2010, the Clear business unit contributed approximately 6% of the Corporation's revenue, and in 2009, the Clear business unit contributed approximately 10% of the Corporation's revenue.

EQUAL, CES' transport division, provides its customers with the necessary 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.

Purechem is CESTC's chemical blending division which will manufacture and sell both drilling fluid products and production chemicals. The Purechem manufacturing facility is located in Carlyle, Saskatchewan and commenced operations in Q1 2011. Purechem is a complimentary business to both CESTC's drilling fluids business and EQUAL's production hauling businesses in Canada. In the US, the Fluids Management division also produces and blends its own set of proprietary drilling fluid products which provides synergies and experience to Purechem.

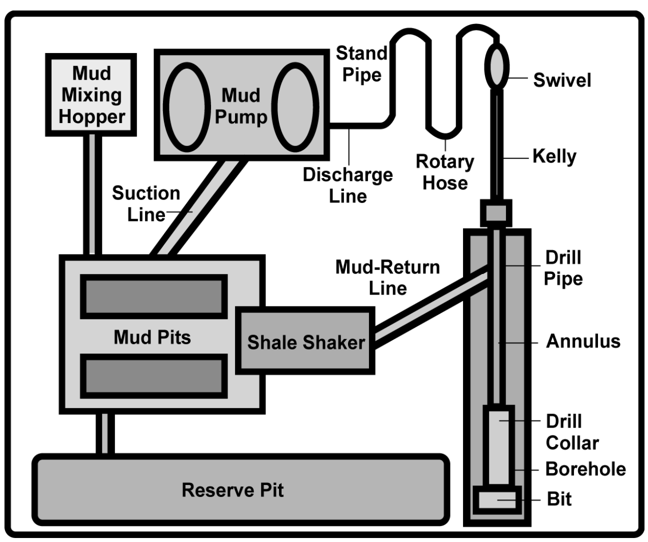
CES' head office and the sales and services headquarters are located in Calgary, Alberta, and its stock point facilities and other operations are located throughout Alberta, British Columbia and Saskatchewan. CES' indirect wholly-owned subsidiary, AES, conducts operations in the United States from its head office in Denver, Colorado, in Texas, Gulf of Mexico, Louisiana, and Pennsylvania through its Fluids Management division headquartered in Houston, Texas, and in the mid-continent through its Champion Drilling Fluids division headquartered in Norman, Oklahoma. AES has stock point facilities located in Oklahoma, Texas, Louisiana, Pennsylvania, Colorado, North Dakota and Utah.

**Description of the Drilling Fluids Business**

*Drilling Fluid*

Drilling fluid, also referred to in the industry as "drilling mud", is a term that includes most fluids used in the drilling business to facilitate the drilling of oil and natural gas wells. The term includes fluids based upon water, hydrocarbons or gases, together with various additives designed to adjust the properties of the drilling fluid systems. The designed fluid encompasses the functions of cleaning the hole, stabilizing the strata drilled, controlling subsurface pressures, sealing fluid losses, enhancing drilling rates and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area.

Each drilling site has facilities to mix and contain drilling fluids. The following diagram illustrates the conventional circulation of drilling fluids through a drilling rig.




The drilling fluid system is the only component of the well facilities that remains in contact with the wellbore throughout the entire drilling operation. An effective drilling fluid system can minimize costs of drilling by reducing the number of days required on a wellbore. Using fluid that ensures wellbore stability while drilling can reduce the risk of excessive costs while drilling.

A properly designed and maintained drilling fluid system performs the following essential functions:

- circulates drilled cuttings from the bottom of the hole to the surface where they can be mechanically separated from the drilling fluid and analyzed;
- controls formation pressures to eliminate the risk of well flow and/or blowout;
- stabilizes the wellbore while evaluating the formations drilled for potential production;
- prevents or minimizes formation damage;
- prevents loss of circulation to the drilled strata;
- prevents or minimizes well-bore collapse or “sloughing”;
- lubricates the drill string and bit; and
- allows analysis of the borehole through logging techniques, analysis of recovered cuttings and formation fluids entrapped in the drilling fluid.

*Drilling Fluid Systems*

Drilling fluid systems designed for the WCSB and the United States are commonly based upon a water or hydrocarbon base fluid to which various products are added to achieve the properties specified prior to drilling. Design considerations include the geology of the area to be drilled, the results of systems used on other wells drilled in the area, the current expected pressures and composition of expected formation fluids that may be encountered, and the area specific governing environmental regulations. The drilling fluid system is designed to minimize the total well cost and to ensure that the objectives of the drilling process are achieved.

Typical drilling fluid systems designed using a water base include the following additives: bentonite clays, synthetic polymers, weighting agents and alkalinity controls. Hydration inhibitors, lubricants and fluid loss control agents are also commonly added to the systems.

Hydrocarbon based fluids also known as "Invert” mud are designed to avoid hydration problems in formations which are partly composed of hydratable minerals or are susceptible to water damage. Shale formations are an example of a formation often drilled with Invert to avoid hydration complications. Emulsifiers are required in these systems along with some of the materials used to build a water-based system. Invert mud systems are gaining a larger market share as it has become a more common application used in horizontal drilling.

Gas-based fluids are used to maximize drilling rates or to avoid formation damage. Additives that enhance the cleaning ability of the gas flow are required. These systems have limited ability to control formation pressure.

Drilling fluid systems are custom designed for each well and each drilling fluid system design is area specific.

*Patented or Proprietary Drilling Fluid System*

Through a suite of patented and proprietary drilling fluid systems and products, the Corporation provides a fully integrated approach to the design and execution of drilling fluid systems in the Corporation's target market. The Corporation's drilling fluid systems are designed with the assistance of the chemical laboratories of the Corporation's suppliers and are customized to address specific drilling requirements. Management believes that the Corporation's proprietary technology and its proven track record in the field have been key factors in obtaining a number of contracts with active Operators.

The Corporation has worked with various chemical laboratories as well as its own laboratory facility to design a comprehensive suite of drilling fluid systems focused on the geological formations and drilling methods employed in the WCSB and the United States. The Corporation's drilling fluid systems are designed to help clients eliminate inefficiencies in the drilling process and to assist them in meeting operational objectives and environmental compliance obligations. The Corporation's drilling fluid systems are proprietary and are protected by industry confidentiality practices, in some cases by a letter agreement, and brand recognition by oil and natural gas exploration and production entities operating throughout the WCSB and the United States. In addition, the Corporation's Seal-AX™ technology has been granted patent protection in Canada and the US, and has patent pending status in several other jurisdictions. The Corporation's drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios. When the Corporation begins work on a project, the Corporation's Technical Services Group identifies the critical drilling issues and chooses the optimal drilling fluid system for the project. If necessary, the Technical Services Group then identifies additional additives required to tailor the drilling fluid system to the project. The Corporation's field technicians monitor the drilling fluid systems at the well site by testing the chemical composition and physical properties of the drilling fluids that are pumped through the annulus of the wellbore. This data is recorded and communicated to the Corporation's Operations Group, which then analyzes the data to determine if modifications or enhancements are required to the drilling program or the drilling fluid system.

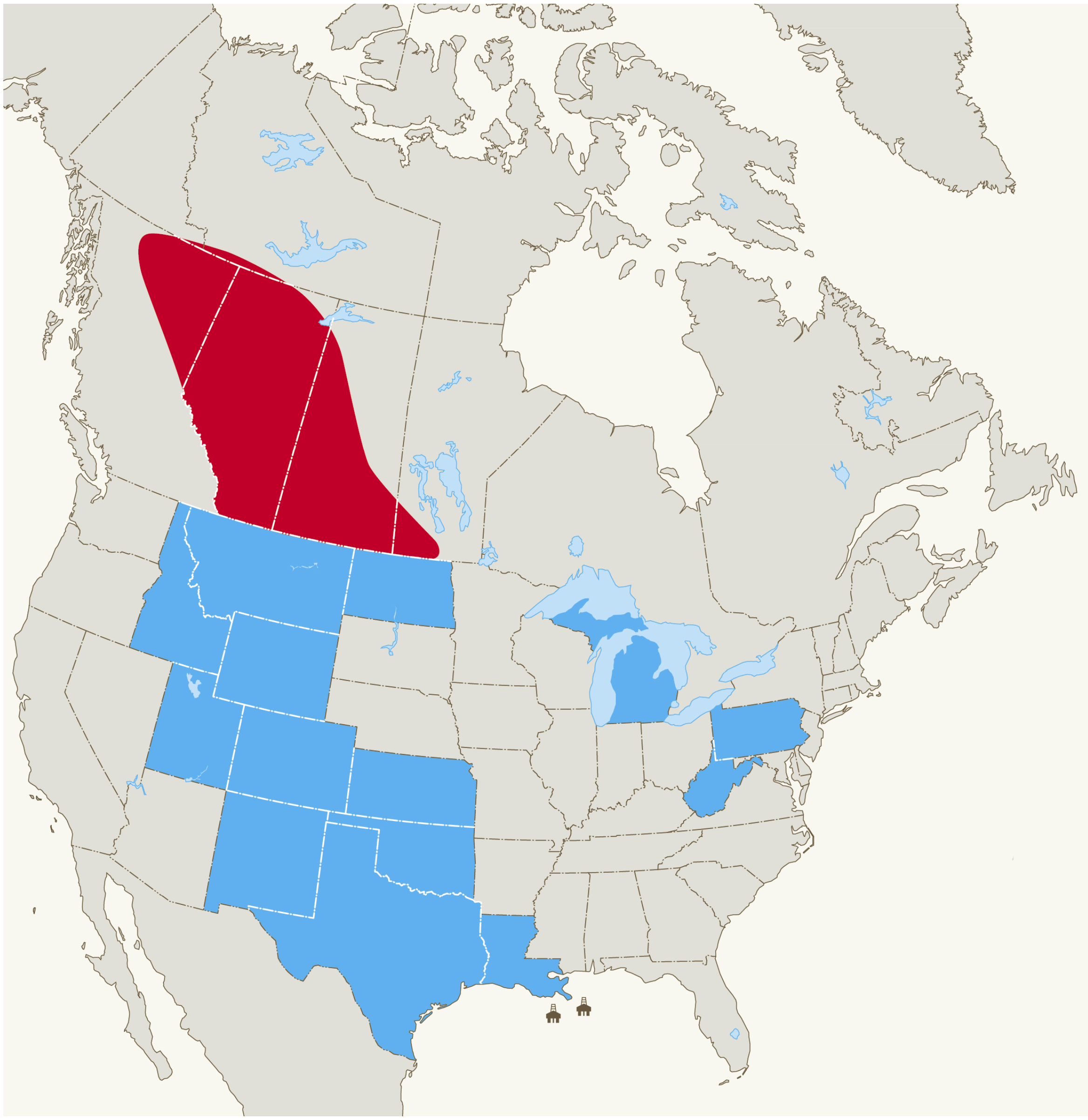
The Corporation's key suite of proprietary drilling fluid systems consists of the following:

| Drilling Fluid System | Application | Function |
| --- | --- | --- |
| Seal-AX ™............................ (patent issued in Canada & US) | Deep /Horizontal | • Provides unique method of reducing seepage and fighting total losses of drilling fluids while drilling in oil-based and water-based muds |
| Polarbond™……………………. | Deep /Horizontal | • Water based shale inhibitor and friction reducing agent |
| ABS40™.............................. | Deep /Horizontal | • Specialized environmentally friendly synthetic oil based mud system |
| Cotton Seal™............................ | Deep/Horizontal | • Whole mud loss agent for oil based mud systems |
| PureStar................................ | Deep/Horizontal | • Environmentally compatible salt free synthetic oil based mud system |
| Envirobond............................ | Vertical/ Horizontal | • Advanced water-based shale inhibitor<br>• Inhibits hydration and migration of fine solids, clays and shales<br>• Prevents damage to heavy oil production zone<br>• Controls mud density |
| Liquidrill ™........................... | Horizontal<br>Heavy Oil<br>Long Reach Lateral Sections<br>Long Interval Sections<br>SAGD<br>Multi-Lateral Horizontal Wells<br>Coalbed Methane | • Clay-free polymer mud system<br>• Controls fluid loss<br>• Proven in many multi-hole projects in high risk areas for shallow vertical depths and long reach lateral sections<br>• Non-damaging water-based drilling fluid |
| Invert/Ecovert........................ | Deep Vertical/Horizontal | • Hydrocarbon based<br>• Maintains stability in highly deviated wellbores<br>• Allows pipe to be tripped without restriction |
| Tarbreak................................ | SAGD | • Reduces adhesiveness of bitumen<br>• Enables drilling by reducing viscosity |
| Tarbreak #2………………….. | SAGD | • Reduces adhesiveness of bitumen<br>• Enables drilling by reducing viscosity |
| Poly-Core……………………. | SAGD | • Core fluid for bitumen reservoirs<br>• Oilsands delineation drilling |

As drilling has become more complex, the applied down-hole technologies are becoming increasingly important in driving success for operators. The Corporation has many other proprietary drilling fluid products in addition to those above and is continually developing new products and systems to meet the ever changing needs of Operators.

**Target Market**

The Corporation focuses on the provision of drilling fluid systems to oil and natural gas exploration and production entities in the WCSB and the United States with drilling activities in the Corporation's target market and areas of expertise. In particular, the Corporation is putting an emphasis on servicing the ongoing major resource plays. The following map outlines in red for the WCSB and in blue for the US the main geographic locations of the Drilling Fluid Systems Business of the Corporation by focus of operations:



Increasingly, industry is drilling more wells horizontally in conjunction with multi-stage fracturing technology. Horizontal drilling is a technique often utilized in formations like tight gas, tight oil, in heavy oil, and in the oil sands. These wells are characterized by long lead times required for project development, regulatory approvals and infrastructure construction, moderate to high drilling complexity and relatively high costs for land, infrastructure and drilling. These wells demand strong technical skills, application of the latest technologies, experience and efficiency in order to maximize successful drilling.

The Corporation has three wholly-owned subsidiaries, CES Operations Ltd., the Partnership, and the General Partner and AES Holdco, a Delaware limited liability company of which CES Operations Ltd. is the sole shareholder, and AES, a Delaware limited liability company of which AES Holdco is the sole shareholder, to facilitate the Corporation's operational expansion strategy in the United States. During the year ended December 31, 2010, AES contributed approximately 44% of the Corporation's consolidated annual revenue. As a result of the Champion Acquisition, FMI Acquisition and organic growth, the share of CES consolidated annual revenue generated by United States operations is expected to rise in 2011.

**Specialized Skill and Knowledge**

Management of the Corporation has technical expertise and experience in designing and implementing drilling fluid systems for all of the relevant NAM on-shore drilling sub-sectors. Management of the Corporation includes the former senior officers and principals of each of the Vendors, and past owner operators of the US Acquisitions, who collectively have over 100 years of experience in the oilfield services and drilling fluid businesses and who have built and maintained significant relationships with a substantial client base of approximately 250 oil and natural gas exploration and production entities in Canada and the US.

**Services**

The Corporation strives to deliver the highest quality service efficiently and effectively.

Services related to drilling fluids are centralized as much as practically possible, allowing for close supervision and quality assurance. In order to ensure that its goals of providing excellent service and effective drilling fluid system design are being achieved, the Corporation reviews its client satisfaction levels. The Corporation utilizes rigorous quality assurance processes in the development and delivery of its products and services, hires qualified personnel and strives to create an environment that attracts and retains talented employees and contractors.

The Corporation's drilling fluid systems are designed to meet client-specific objectives which typically include minimizing drilling costs and maximizing reserves and production rates. The Corporation's technical services group designs specific fluid systems to optimize drilling and recovery while minimizing costs at each specific drill site. Design considerations include such factors as wellbore stability, wellbore pressure management, drilling time, formation impact, completion impact and environmental impact, all with a view to selecting drilling fluids which are best suited to the specific drilling operation.

In addition, to further improve its service capabilities, during 2007 the Corporation established the EQUAL transport division, and acquired tanker trucks and dry goods hauling equipment in order to: control transport of drilling fluid products and drilling fluids to its clients on a more consistent timeframe and at a more consistent cost than is currently available from third parties; and to capture margins currently paid to third-party service providers. In 2009, EQUAL expanded services in Saskatchewan to include hauling of produced fluids for Operators.

In 2008, the Partnership completed the Clear Acquisition, adding an environmental services division specializing in drilling fluid waste management to its portfolio of services.

In 2010, CESTC announced the establishment of Purechem, its chemical blending division which will manufactures and sells both drilling fluid products and production chemicals. Purechem is a complimentary business to both CESTC’s drilling fluids business and EQUAL’s production hauling businesses in Canada.

**Equipment and Facilities**

The Corporation's core drilling fluids business is generally not very capital intensive. The Corporation's equipment consists of field trucks, field testing equipment, information technology equipment, telecommunications equipment, office equipment and facility improvements. In addition, in 2007 the Corporation constructed a trucking, warehousing and tank farm facility in Edson, Alberta. In 2008, the Corporation expanded its trucking operations into southeast Saskatchewan with the establishment of a trucking base and the purchase of several trucks and trailers. In 2009, the Saskatchewan trucking business was expanded to include hauling of produced fluids for operators. In 2010, installations were further expanded in southeast Saskatchewan with the construction of the Purechem manufacturing facility. Although the business of the Corporation does not require significant capital expenditures, the Corporation plans to retain, over the long term, a portion of its cash flow from operations to be used for growth opportunities and managing seasonal fluctuations in operating cash flow.

The Corporation's head office and sales and services headquarters are located in Calgary, Alberta. CESTC is the owner of two warehouses and truck terminals located in Edson, Alberta, and Carlyle, Saskatchewan. In Canada, the Corporation also rents warehouse space throughout Alberta, British Columbia and Saskatchewan as inventory and stock point locations to facilitate efficient delivery of its services and products to clients. These warehouses are owned by trucking companies or oilfield service providers.

In the US, the Corporation has 4 owned warehouses located in Oklahoma, Texas, and Pennsylvania and utilizes other rented facilities in Utah, Colorado, North Dakota, Oklahoma and Texas.

**Personnel**

As at December 31, 2010, the Corporation, together with its subsidiaries, employed 365 employees and retained the services of approximately 133 consultants. As at March 1, 2011, the Corporation, together with its subsidiaries, employed 399 employees and retained the services of approximately 135 consultants.

**Clients**

The Corporation's client base represents a cross-section of the North American oil and natural gas industry, including independent junior and intermediate oil and natural gas exploration and production entities, large multinational producers and joint ventures.

The Corporation's business is based in large part on strong client relationships. The Corporation's ability to design and execute effective drilling fluid systems has historically led to a high retention rate for existing clients that have recurring needs for the Corporation's services. The Corporation has a well established client base of approximately 250 Operators having operations throughout western Canada and in the United States. The top five clients of the Corporation accounted for approximately 27% of its revenues for the year ended December 31, 2010, with one large independent Operator accounting for approximately 11%.

The Corporation markets its technical expertise and services to Operators by emphasizing the historical successes of its drilling fluid systems, its technologies, and the technical expertise and experience of its personnel. Large Operators generally tender bids for services or approve prime vendors through sales and technical presentations. Large Operators base selections on price; technical ability; field experience; area knowledge; health, safety and environmental compliance; and overall size and strength of the service provider. Smaller Operators and drilling and completion engineering firms tend to rely on continual technical support, professional support and track records of the service provider.

**Suppliers**

The Corporation has developed relationships with and utilizes a number of suppliers for products used in designing drilling fluids and drilling fluid systems, including manufacturers, wholesalers and chemical specific international suppliers. The Corporation will continue to use all available options to supply the appropriate products to its client base and utilize suppliers to:

- supply commodity products to site specific warehouse locations;
- develop and market new products utilizing manufacturers' production facilities and laboratory resources in conjunction with the Corporation's market strategies and needs; and
- purchase inventory where economically feasible, including directly from international sources to lower costs or increase margins.

The products used by the Corporation are generally priced and sold by a supplier based on a fee schedule that is fixed for a period of 30 days or more. Because the Corporation is not bound by any material long-term commitments to purchase raw materials, the Corporation is able to purchase directly from manufacturers or from wholesalers, depending on several factors, including price and the quantity available to meet the Corporation's ongoing demand. Suppliers generally compete for the Corporation's business, which in turn allows the Corporation to benefit from competitive pricing while maintaining the ability to seek out and take advantage of other low-cost alternatives. In addition, the Corporation tries to insulate itself from fluctuations in the cost of raw materials by referencing the pricing of its drilling fluids and drilling fluid systems to the cost of the raw materials, thereby passing costs on to its clients. If costs of raw materials rise, the Corporation's competitors will all generally be exposed to cost increases.

During 2007, the Corporation established a procurement position, the responsibilities of which included implementing a number of procurement initiatives. These initiatives included a more focused approach to direct procurement for manufacturers to realize cost-savings. During 2008, initial steps were taken to procure products directly from overseas source manufacturers. With the slow-down in activity levels in 2009, the Corporation was able to focus even more attention on the procurement process and implemented more sophisticated purchasing procedures, which resulted in cost reductions of input materials. These improvements allowed the Corporation to defend margin integrity in an extremely price conscious environment. As a result of the scale achieved through the US Acquisitions, the Corporation continues to put more emphasis on procurement practises to improve quality and cost effectiveness of supply.

**Competition**

The drilling fluids business is competitive. There are approximately 35 drilling fluid companies operating in the WCSB, and considerably more in the continental United States, all of which are in competition with the Corporation. Four large integrated oilfield service companies control a broad majority of the world-wide drilling fluids market-place. Drilling fluid entities compete by focusing their efforts on the price of materials, quality of product, technological advantages, and the knowledge and technical expertise of management and field personnel. Management believes that the Corporation's specialty fluids provide significant productivity increases, drilling cost reductions, solutions to environmental issues and solutions to a wide variety of drilling operations, including conventional and heavy oil drilling, and for downhole problems such as water/oil separation, wellbore ballooning and other production specific problems. Management believes that the Corporation will maintain its competitive status by offering what Management believes is state-of-the-art technology in its drilling fluid systems.

The segment of the drilling fluids market in which the Corporation operates has barriers to entry such as:

- *Proprietary Drilling Fluid Systems* – a drilling fluid provider that possesses proprietary technology and builds a proven history with that technology has an advantage over competitors who attempt to copy technology but do not have a working history.

- *Reputation for Expertise* – a drilling fluids provider with technical expertise, particularly with respect to a specific formation or drilling process, has an advantage over other drilling fluids providers.

- *Certificates of Recognition* – Alberta Human Resources and Employment and the Petroleum Industry Training Service (the certifying partner for the petroleum industry) issues certificates of recognition to entities for achieving the provincial minimum standards for a health and safety program, and evidence that a drilling fluids provider has a safety program in place which meets minimum provincial standards. Most large exploration and production entities require their drilling fluid provider to hold a current certificate of recognition in order to work on their drilling projects.

- *Master Service Agreements* – many senior exploration and production entities as well as integrated oil companies require their service providers to be engaged through master service agreements which designate those service providers as approved service providers.

Management believes the Corporation's proprietary, and in the case of Seal-AX™, patented, drilling fluid systems; its trained, loyal and experienced staff; its solid relationships with its clients, some of which are evidenced by master service agreements; and its efficient operations, give the Corporation a competitive advantage over other drilling fluids providers.

**Competitive Advantages**

Management believes that the following factors provide the Corporation with a competitive advantage in the drilling fluid systems industry:

*Strong Reputation and Diversified Client Base*

The Corporation, by its estimated market-share, is the largest Canadian drilling fluid systems provider, and is growing its market-share in the US, and is serving a wide range of Operators in the NAM. The Corporation's client base represents a cross-section of the North American oil and natural gas industry, including independent junior and intermediate oil and natural gas exploration and production entities, large multinational producers and joint ventures. Management of the Corporation has a strong reputation which they expect will provide the Corporation with continued client referrals. Through AES in the US, the Corporation’s reputation and client base has been growing. The US Acquisitions have accelerated the growth of AES’ client base and significantly enhanced AES’ presence.

*Client Retention*

The Corporation's business is based in large part on strong client relationships. The Corporation's ability to design and execute effective drilling fluid systems has historically led to a high retention rate for existing clients that have recurring needs for the Corporation's services. The Corporation has a well established client base of approximately 250 Operators having operations throughout North America.

*Proprietary and Patented Drilling Fluid Systems*

The Corporation's drilling fluid systems are designed to meet client-specific objectives which typically include minimizing drilling costs and maximizing reserves and production rates. Through a suite of proprietary and patented drilling fluid systems and products, the Corporation provides a fully integrated approach to the design and execution of drilling fluid systems in the Corporation's target market. The Corporation's drilling fluid systems are designed in-house with its own laboratory facilities and scientists or with the assistance of the chemical laboratories of the Corporation's suppliers and are customized to address specific drilling requirements.

*Attractive Margin Business Model*

The Corporation is focused on business segments that offer reasonable margins. The Corporation strives to maintain its focus on its core drilling fluids business while maintaining a low cost operating structure requiring a modest capital investments.

*Experienced and Committed Management and Professional Team*

The Corporation has been successful in attracting and retaining talented professionals. The average years of experience of Management exceeds 25 years. Management's interests are aligned with those of the Corporation and Shareholders through their holding of approximately 17% of the outstanding Common Shares. See "Directors and Officers", "Description of Capital Structure" and "Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer".

*Complimentary Environmental Business*

Clear provides 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 to carry out various related services necessary to dispose of drilling fluids.

This business line is complementary to the drilling fluids business and provides opportunity to provide a more integrated service in certain circumstances.

*Warehousing and trucking*

The Corporation's owned warehouses provide staging facilities in key operating areas for the Corporation to house its own materials and provide trucking support, which allows CESTC to manage and control inventory of products more efficiently and reduces the reliance on third parties for trucking and warehousing.

*Chemical Blending – Production Chemicals and Drilling Fluid Chemicals*

Purechem chemical blending division manufactures and sells both drilling fluid products and production chemicals. Purechem is a complimentary business to both CESTC's drilling fluids business and EQUAL's production hauling businesses in Canada. In the US, the Fluids Management division also produces and blends its own set of proprietary drilling fluid products which provides synergies and experience to Purechem.

**Health, Safety and Environment**

The Corporation has very high standards with respect to environmental, health and safety matters. The Corporation employs rigorous safety and training standards aimed at protecting the environment and its employees. The Corporation employs safety coordinators to ensure compliance with all necessary safety and regulatory requirements.

**Insurance**

The Corporation maintains insurance, which in Management's view, provides coverage that addresses all material insurable risks, is similar to that which would be maintained by a prudent operator of a similar business and is subject to deductibles, limits and exclusions that are customary and reasonable given the cost of procuring insurance and current operating conditions. The Corporation is responsible for obtaining or causing to be obtained a policy of insurance for its directors and officers. See "Risk Factors – Risks Relating to the Corporation and its Business – Operating Risks and Insurance" and "Risk Factors – Risks Relating to the Corporation and its Business – Uninsured or Underinsured Losses".

## DESCRIPTION OF CAPITAL STRUCTURE

CESTC is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares ("**Preferred Shares**"), issuable in series. The following is a summary of the rights, privileges, restrictions and conditions which attach to the Common Shares and Preferred Shares.

**Common Shares**

The holders of Common Shares are entitled to: dividends if, as and when declared by the Board of Directors; to one vote per share at meetings of the holders of Common Shares; and upon liquidation, dissolution or winding up of CESTC to receive pro rata the remaining property and assets of CESTC, subject to the rights of shares having priority over the Common Shares.

**Preferred Shares**

The Preferred Shares are issuable in series and each class of Preferred Shares have such rights, restrictions, conditions and limitations as the Board of Directors may from time to time determine. The holders of Preferred Shares are entitled, in priority to holders of Common Shares, to be paid rateably with holders of each other series of Common Shares the amount of accumulated dividends, if any, specified to be payable preferentially to the holders of such series and upon liquidation, dissolution or winding up of CESTC, to be paid rateably with holders of each other series of Preferred Shares the amount, if any, specified as being payable preferentially to holders of such series. As at the date hereof there were nil Preferred Shares outstanding.

## DISTRIBUTION AND DIVIDEND HISTORY

The Conversion Transaction was completed on January 1, 2010, and resulted in the Unitholders of the Partnership becoming Shareholders of CESTC. As such, the Board of Directors of CESTC has the discretion to determine if and when dividends are declared and the amount that is paid to Shareholders through any such dividends of CESTC.

In connection with the Conversion Transaction, the Board of Directors became responsible for determining the dividend policy of CESTC from time to time.

Through the course of the year, monthly dividends declared as a proportion of net earnings 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 funds. 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 or distribution as the long-term capital investments required and maintenance capital expenditures required for CES to execute its business plan are not significant.

The Corporation currently intends to designate all dividends to be "eligible dividends" for the purposes of the Tax Act such that Shareholders who are individuals will benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act.

The following cash distributions were declared by the Partnership to its Unitholders during the years ending December 31, 2008, and December 31, 2009:

**2008**

| Distribution Record Date | Monthly Distributions per Class A Unit | Quarterly Distributions per Subordinated Class B Unit[(2)] |
|---|---|---|
| January 31, 2008 | $0.0792 | Nil |
| February 29, 2008 | $0.0792 | Nil |
| March 31, 2008 | $0.0792 | $0.2376 |
| April 30, 2008 | $0.0792 | Nil |
| May 31, 2008 | $0.0792 | Nil |
| June 30, 2008 | $0.0792 | $0.2376 |
| July 31, 2008 | $0.0792 | Nil |
| August 31, 2008 | $0.0792 | Nil |
| September 30, 2008 | $0.0792 | $0.2376 |
| October 31, 2008 | $0.0792 | Nil |
| November 30, 2008 | $0.0792 | Nil |
| December 31, 2008 | $0.0792 | $0.2376 |
| **TOTAL** | $0.9504 | $0.9504 |

| 2009 | | |
|---|---|---|
| **Distribution Record Date** | **Monthly Distributions per Class A Unit** | **Quarterly Distributions per Subordinated Class B Unit(2)** |
| January 31, 2009 | $0.0792 | Nil |
| February 28, 2009 | $0.0792 | Nil |
| March 31, 2009 | $0.0792 | $0.2376 |
| April 30, 2009 | $0.0792 | Nil |
| May 31, 2009 | $0.0792 | Nil |
| June 30, 2009 | $0.0792 | Nil |
| July 31, 2009 | $0.0792 | Nil |
| August 31, 2009 | $0.0792 | Nil |
| September 30, 2009 | $0.0792 | Nil |
| October 31, 2009 | $0.0792 | Nil |
| November 30, 2009 | $0.0792 | Nil |
| December 31, 2009 | $0.0792 | Nil |
| **TOTAL** | $0.9504 | $0.2376 |

The following table sets forth the dividends declared by CESTC on Common Shares to December 31, 2010:

| Dividend Record Date | Monthly Common Share Dividend |
|---|---|
| January 31, 2010 | $0.06 |
| February 26, 2010 | $0.06 |
| March 31, 2010 | $0.06 |
| April 30, 2010 | $0.06 |
| May 31, 2010 | $0.06 |
| June 30, 2010 | $0.08 |
| July 30, 2010 | $0.08 |
| August 31, 2010 | $0.08 |
| September 30, 2010 | $0.08 |
| October 29, 2010 | $0.08 |
| November 30, 2010 | $0.10 |
| December 31, 2010 | $0.10 |
| **TOTAL** | $0.90 |

The historical distribution and dividend payments described above may not be reflective of future dividend payments, which will be subject to review by the Board of Directors taking into account the prevailing circumstances at the relevant time. See "Risk Factors – Risks Relating to the Structure of the Corporation".

The Partnership is indebted to HSBC under the Senior Credit Facility. Principal and interest payable under the Senior Credit Facility have priority over distributions from the Partnership to CESTC, which in turn could affect dividends payable to Shareholders. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Senior Credit Facility impose certain restrictive covenants on the Partnership that may affect the payment of distributions. See "Risk Factors – Risks Relating to the Corporation and its Business – Debt Service".

## MARKET FOR SECURITIES

Prior to the Conversion Transaction, the Class A Units were listed and posted for trading on the TSX under the symbol "CEU.UN". As of January 7, 2010, the Common Shares have been listed on the TSX under the symbol "CEU". The following table sets forth the high and low closing prices and volumes traded for the Common Shares for each month of the year ending December 31, 2010:

| 2010 | | | |
|---|---|---|---|
| | Price Range ($) | | |
| Period | High | Low | Trading Volume |
| January | 14.300 | 12.000 | 893,502 |
| February | 15.000 | 13.260 | 584,083 |
| March | 14.990 | 13.900 | 747,668 |
| April | 16.590 | 14.300 | 270,894 |
| May | 17.850 | 14.040 | 633,527 |
| June | 17.500 | 14.500 | 402,107 |
| July | 17.500 | 15.500 | 560,479 |
| August | 18.750 | 17.250 | 313,292 |
| September | 18.000 | 16.950 | 1,239,359 |
| October | 21.490 | 17.300 | 870,700 |
| November | 27.350 | 20.400 | 1,050,684 |
| December | 30.100 | 25.860 | 528,664 |

See "Risk Factors".

## ESCROWED SECURITIES

The following table sets forth the class, percentage and number of securities of CESTC that are subject to escrow or contractual restrictions on transfer.

| Designation of Class | Number of securities held in escrow or that are subject to a contractual restriction on transfer | Percentage of Class |
|---|---|---|
| Common Shares | 527,876 Common Shares(1) | 2.9% |
| Common Shares | 1,289,370 Common Shares(2) | 7.1% |

**Notes:**

(1) The 527,876 Common Shares are held by the Escrow Agent in accordance with the terms of the Champion Escrow Agreement pursuant to the Champion Acquisition. The Champion Escrow Agreement provides that certificates representing 527,876 Common Shares held in escrow pursuant to the Champion Escrow Agreement were released to certain shareholders of Champion as to 1/2 on November 30, 2011 and 2012 respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(2) The 1,289,370 Common Shares are held by the Escrow Agent in accordance with the terms of the FMI Escrow Agreement pursuant to the FMI Acquisition. The FMI Escrow Agreement provides that certificates representing the 1,289,370 Common Shares held in escrow pursuant to the FMI Escrow Agreement will be released to FMI as to 1/3 on June 30, 2011, June 30, 2012, and June 30, 2013, respectively, subject in each case to standard escrow release conditions relating to a "change of control" or take-over bid in respect of CESTC or AES.

## DIRECTORS AND OFFICERS

### Directors and Officers

The following sets out the respective names, municipalities of residence, positions with CESTC and the General Partner and principal occupations of the directors and officers of CESTC and the General Partner for the prior five year period.

| Name and Municipality of Residence | Position with CESTC and the General Partner | Director or Officer of CESTC (and the General Partner) Since | Occupation during Last Five Years |
|---|---|---|---|
| COLIN D. BOYER [1][2] .............................<br>Calgary, Alberta, Canada | Director | January 1, 2010<br>(December 9, 2005) | Independent businessman since August, 2006. Prior thereto, President and Chief Executive Officer of Birchill Energy Limited from March, 2004 to August, 2006. Prior thereto, President and Chief Operating Officer of Birchill Exploration Limited. |
| JOHN M. HOOKS [1]..................................<br>Calgary, Alberta, Canada | Director | January 1, 2010<br>(December 9, 2005) | President, Chief Executive Officer and a Director of Phoenix Technology Services Inc., the administrator of Phoenix Technology Income Fund (a directional and horizontal drilling services company). |
| KYLE D. KITAGAWA, CA [2] ....................<br>Calgary, Alberta, Canada | Director and Chairman of the Board of Directors | January 1, 2010<br>(December 9, 2005) | Managing Director of North River Capital Corp. (a privately held holding investment company) since March, 2003. Prior thereto, President and Chief Executive Officer of Enron Canada Corp. |
| D. MICHAEL G. STEWART [2] ...................<br>Calgary, Alberta, Canada | Director | January 1, 2010<br>(January 5, 2006) | Corporate director and principal of Ballinacurra Group since March, 2002. Prior thereto, Executive Vice President , Business Development of Westcoast Energy Inc. |
| RODNEY L. CARPENTER...........................<br>Calgary, Alberta, Canada | Director | January 1, 2010<br>(December 9, 2005) | Independent Businessman. Former Vice President, Business Development of the General Partner from January, 2006 to December 31, 2008. Prior thereto, President and Chief Executive Officer of CFS. |
| JAMES (JIM) G. SHERMAN | Director | March 16, 2011 | Co-founder of Fluids Management II Ltd. since May 1996, from which CESTC recently acquired all of its drilling fluids business assets. |
| THOMAS J. SIMONS .................................<br>Calgary, Alberta, Canada | Director and President and Chief Executive Officer | January 1, 2010<br>(December 9, 2005) | President and Chief Executive Officer of the General Partner since March, 2006 and of CESTC since January 1, 2010 and Vice President and principal of Impact. |

| Name and Municipality of Residence | Position with CESTC and the General Partner | Director or Officer of CESTC (and the General Partner) Since | Occupation during Last Five Years |
|---|---|---|---|
| KENNETH D. ZANDEE ............................... Calgary, Alberta, Canada | Vice President, Sales and Marketing | January 1, 2010 (December 9, 2005) | Vice President, Sales and Marketing of the General Partner since March, 2006 and of CESTC since January 1, 2010. Prior thereto, Vice President and Sales Manager of CFS. |
| KENNETH E. ZINGER ............................... Calgary, Alberta, Canada | Chief Operating Officer | January 1, 2010 (December 9, 2005) | Chief Operating Officer of the General Partner since January, 2006 and of CESTC since January 1, 2010 and President of Impact. |
| CRAIG F. NIEBOER ................................. Calgary, Alberta, Canada | Chief Financial Officer | January 1, 2010 (November 17, 2008) | Chief Financial Officer of the General Partner since November 17, 2008 and of CESTC since January 1, 2010. Prior thereto, Chief Financial Officer of BrazAlta Resources Corp. from December, 2006 to November, 2008. Prior thereto, Chief Financial Officer of Quorum Information Technologies Inc. from September, 2003 to December, 2006. |
| SCOTT R. COCHLAN ............................... Calgary, Alberta, Canada | Corporate Secretary | January 1, 2010 (February 3, 2006) | Partner at Torys LLP (Barristers & Solicitors) since March 2010. Prior thereto, Partner at Blake, Cassels & Graydon (Barristers & Solicitors) from January 2001 to March 2010. |

**Notes:**
(1) Member of the Corporate Governance and Compensation Committee. Mr. Hooks is the Chair of the Corporate Governance and Compensation Committee.
(2) Member of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.

### Share Ownership

In view of the fact that Mr. Carpenter and Mr. Zandee indirectly control CFS, and Mr. Simons and Mr. Zinger directly or indirectly control corporations that are members of the Impact Vendor Group, and that Mr. Sherman directly or indirectly controls FMI, the officers and directors of the Corporation, as a group, beneficially own, or control or direct, directly or indirectly, 4,405,122 Common Shares, being approximately 24% of the outstanding Common Shares.

### Corporate Cease Trade Orders or Bankruptcies

Except as set forth below, no current director or officer of the Corporation and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, or within 10 years prior to the date of this Annual Information Form, has been, a director or officer of any other issuer that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any statutory exemption for a period of more than 30 consecutive days; or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Hooks was previously a director of Octane Energy Services Ltd. ("**Octane**"), an oilfield services company. On October 15, 2004, Octane announced that it, and its wholly-owned subsidiaries, Octane Energy Services Inc. and Octane Energy Services (B.C.) Inc., filed voluntary applications for protection under the *Companies' Creditors*

*Arrangement Act* ("**CCAA**") to assist Octane in carrying out a restructuring plan. Subsequently, Octane Energy Services Inc. and Octane Energy Services (B.C.) Inc. were placed into receivership by consent, and on June 21, 2005, Octane emerged from protection under the CCAA by satisfying all of its secured and unsecured creditors by payment of 100% of the outstanding claims submitted under the claims process pursuant to the CCAA plan of arrangement. On June 28, 2005, Octane announced that its shareholders voted in favour of changing the name of the company to NX Capital Corp. Mr. Hooks ceased to be a director of Octane in May 2005.

**Personal Bankruptcies**

No director or officer of the Corporation (or personal holding company of any such person) and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has, during the 10 years prior to the date hereof, become bankrupt or, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

**Penalties and Sanctions**

No director or officer of the Corporation (or personal holding company of any such person) and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority, or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other material penalties or sanctions imposed by a court or regulatory body.

**Conflicts of Interest**

Certain directors of CESTC are associated with other companies or entities, including entities engaged in the oil and natural gas industry and the oilfield services business, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with CESTC are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of CESTC. See "Risk Factors – Conflicts of Interest".

## RISK FACTORS

***The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and the Corporation's other public disclosure documents, including the managements' discussion and analysis of operations for the Corporation for the period ended December 31, 2010. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers remote or immaterial, may also impair the operations of the Corporation and its subsidiaries. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Corporation could be materially adversely affected.***

**Risks Relating to the Corporation and its Business**

*Volatility of Industry Conditions*

The demand, pricing and terms for oilfield services, including drilling fluid systems, trucking and transportation services, production chemicals and environmental waste management, largely depend upon the level of industry activity for oil and natural gas exploration and development in the markets in which CESTC operates, including the WCSB and the United States. Oil and natural gas industry conditions are influenced by numerous factors over which the Corporation has no control, including: oil and natural gas prices; expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation and processing capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; availability of capital for oil and gas exploration and capital budgets; and the ability of oil and natural gas entities to raise equity capital or debt financing.

The level of activity in the oil and natural gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and natural gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect the demand for drilling and well services by oil and natural gas clients. A material decline in oil or natural gas prices or industry activity in any of the areas in which the Corporation operates could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the dividends declared on the Common Shares. Any addition to, or elimination or curtailment of, government incentives could have a significant impact on the oilfield service industry. Lower oil and natural gas prices could also: cause the Corporation's clients to seek to terminate, renegotiate or fail to honour the Corporation's services contracts; impair the fair market value of the Corporation's tangible assets, intangible assets and or goodwill which in turn would trigger a writedown for accounting purposes; affect the Corporation's ability to retain skilled oilfield services personnel; and affect the Corporation's ability to obtain access to capital to finance and grow the Corporation's business.

*Seasonality*

Seasonality is not as much of a factor in the US as drilling activity for the most part can continue throughout the calendar year. However, the level of activity in the oilfield services industry within the WCSB is influenced by seasonal weather patterns. The spring thaw during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services that may be provided. In addition, municipalities and transportation departments enforce road bans during such times that restrict the movement of heavy equipment. The duration of this period may have a direct impact on the level of the Corporation's activities. The spring thaw typically occurs earlier in the year in southern Alberta and Saskatchewan than it does in northern Alberta and British Columbia. The timing and duration of spring thaw is dependent on weather patterns but generally occurs in April and May. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting the Corporation's equipment utilization rates and revenues.

There is greater demand within the WCSB for oilfield services, including the drilling fluid systems provided by the Corporation, in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield service activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites, and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services, including drilling fluid systems, may also be affected by the severity of the Canadian winters. The volatility in the weather and temperature can therefore create unpredictability in activity, which can have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and consequently on dividends declared on the Common Shares.

*Alternatives to and Changing Demand for Hydrocarbon Products*

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the dividends declared on the Common Shares.

*Third-Party Credit Risk Relating to Completion of the Conversion Transaction*

CESTC is or may be exposed to third-party credit risk relating to any obligations of Nevaro that are not transferred, or if transferred, from which obligations CESTC has not been released. CESTC has, through the contractual provisions in the Arrangement Agreement and the indemnity agreement (the "**Indemnity Agreement**") and divestiture agreement ("**Divestiture Agreement**") contemplated thereby, attempted to ensure that the liabilities and obligations relating to the business of Nevaro are transferred to and assumed by Newco, that CESTC is released from any such obligations, and even where such transfer or release is not effective or is not obtained, CESTC is indemnified by Newco for all such obligations. However, in the event Newco fails or is unable to meet such contractual obligations to CESTC, CESTC may be liable for such obligations which could have a material adverse effect on the business, financial condition and results of operations of CESTC.

*Due Diligence with Respect to the Conversion Transaction*

Although the Partnership conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of Nevaro and attempted to ensure, through the contractual provisions in the Arrangement Agreement, Indemnity Agreement and Divestiture Agreement, that the liabilities and obligations relating to the business of Nevaro are transferred to and assumed by Newco, there may be liabilities or risks that the Partnership may not have uncovered in its due diligence investigations, or that may have an unanticipated material adverse effect on CESTC. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of CESTC.

*Tax Related Risks Associated with the Conversion Transaction*

The steps under the Arrangement Agreement were structured to be tax deferred to the Partnership and Unitholders based on the SIFT Rules and Conversion Rules. See "General Development of the Business". If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences contemplated by the Partnership or the tax consequences of the Conversion Transaction to CESTC, the Partnership and the Unitholders may be materially different than the tax consequences described in the Arrangement Agreement. While CESTC is confident in its position, there is a possibility that the CRA could successfully challenge the tax consequences of the Conversion Transaction or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated in the Arrangement Agreement for CESTC. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CESTC. On March 4, 2010, the Minister of Finance announced certain proposed amendments to the Tax Act to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion Transaction, where units of a SIFT partnership are exchanged for shares of a corporation. However, the proposed amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion Transaction.

*Nevaro Operational Risks*

The Partnership has, through its due diligence and the contractual provisions in the Arrangement Agreement, the Indemnity Agreement and the Divestiture Agreement, attempted to ensure that the liabilities and obligations relating to the business of Nevaro are transferred to and assumed by Newco, that CESTC is released from any such obligations and, even where such transfer or release is not effective or is not obtained, CESTC is indemnified by Newco for all such obligations. However, in the event Newco fails or is unable to meet such contractual obligations to CESTC, CESTC could be exposed to liabilities and risks associated with the operations of Nevaro which include, without limitation, risks relating to claims with respect to intellectual property matters, product liability or environmental damages.

*Provincial Royalty Rate Changes*

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.

*Sources, Pricing and Availability of Products and Third-Party Services*

The Corporation sources its products and third-party services parts from a variety of suppliers, most of whom are located in North America and increasingly from overseas. Should any suppliers of the Corporation be unable to provide the necessary products or services or otherwise fail to deliver products or services in the quantities required or at acceptable prices, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on the dividends declared on the Common Shares. In addition, the ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to products, equipment, parts and components. Failure of suppliers to deliver such products, equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain and expand its client list. No assurance can be given that the Corporation will be successful in maintaining the required supply of products, equipment, parts and components. It is also possible that the final costs of the equipment contemplated by the Corporation's capital expenditure program may be greater than anticipated by Management, and may be greater than the amount of funds available to the Corporation, in which circumstance the Corporation may curtail or extend the timeframes for completing its capital expenditure plans.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in North America and increasingly from overseas. The Corporation believes alternate suppliers exist for all major required raw materials. The source and supply of materials has been consistent in the past; however in periods of high activity, periodic shortages of certain materials have been experienced and costs may be affected. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Corporation's clients could have a material adverse effect on the Corporation's results of operation and cash flows and therefore on the dividends declared on the Common Shares.

*Credit Risk*

A concentration of credit risk exists in the Corporation's accounts receivable since they are exclusively from companies in the NAM oil and natural gas industry. Significant changes in the oil and natural gas industry, including fluctuations in commodity prices and economic conditions, environmental regulations, government policy, royalty rates and geopolitical factors, may adversely affect the Corporation's ability to realize the full value of its accounts receivable. It is not possible to predict the likelihood or magnitude of this risk. The Corporation attempts to mitigate this risk through its credit, invoicing and collections policies, which include procedures such as performing credit checks as considered necessary and managing the amount and timing of exposure to individual customers. The Corporation reviews these procedures on a regular basis. Although collection of these receivables could be influenced by economic factors affecting this industry, Management considers the risk of a significant loss to be remote at this time.

*Debt Service*

The Corporation is indebted to HSBC under the Senior Credit Facility in accordance with the terms of the Facility Letter. Principal and interest payable under the Senior Credit Facility have priority over dividends declared on the Common Shares. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Senior Credit Facility impose certain restrictive covenants on the Partnership that may affect the payment of distributions.

Variations in interest rates and scheduled principal repayments, or the need to refinance all or a portion of the Senior Credit Facility upon expiration, could result in significant changes in the amount required to be applied to service the debt of the Partnership under the Senior Credit Facility before the distribution of any amounts to the Corporation or the Shareholders.

There can be no assurance that the amounts available under the Senior Credit Facility will be adequate for the financial obligations of the Partnership.

*Government Regulation*

The operations of the Corporation are subject to a variety of federal, provincial and local laws of Canada and foreign laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations, the disposal of fluids used in its drilling fluid systems and the manufacture, management, transportation, storage and disposal of certain materials and equipment used in the Corporation's operations. The Corporation invests financial and managerial resources to ensure such compliance and will continue to do so in the future. Although such expenditures have not historically been material to the Corporation, such laws or regulations are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or impact of such laws and regulations on its future operations. It is not expected that any changes to these laws, regulations or guidelines would affect the operations of the Corporation in a manner materially different than they would affect other oil and natural gas service companies of a similar size.

*Environmental Liability*

Certain operations of the Corporation routinely deal with natural gas, oil and other petroleum products, as well as chemical additives used in connection with drilling fluid systems. The Corporation is therefore exposed to potential environmental liability in connection with its business. The Corporation has programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials, however, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. As a result of its drilling fluid systems, the Corporation will also generate or manage hazardous wastes, such as waste oil and washdown wastes. Although the Corporation enforces a program to identify and address contamination issues before acquiring or leasing properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by the Corporation prior to the Corporation owning, leasing or operating these properties. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Corporation to remove the wastes or remediate sites where they have been released.

In addition, laws and regulations relating to the environment and which apply to the business and operations of the Corporation are likely to change and become more stringent in the future. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Corporation cannot predict the nature of the restrictions that may be imposed. The Corporation may be required to increase operating expenses or capital expenditures in order to comply with any new environmental restrictions or regulations, which could in turn reduce the amount of dividends declared on the Common Shares.

*Regulations Relating to the Reduction of Greenhouse Gases*

Concern over the potential impact of global warming, including the prediction of more extreme weather events, has been building momentum in the international community for years. The central tenet is that man-made emissions from a variety of sources, including the burning of fossil fuels like oil and gas, have been causing atmospheric warming that may in turn be changing the climate. The 1992 *United Nations Framework Convention on Climate Change* (the UNFCCC) calls for cooperation by all countries to take measures to protect the climate system. Subsequent international initiatives, including the 1997 Kyoto Protocol to the UNFCCC, have begun the process of developing an international legal regime, although sustained consensus remains elusive. In recent years, legislators in Canada and the U.S. - at the federal, provincial, state and local level - have been engaged to varying degrees in policy development, debate, the introduction of legislative proposals, and in some cases, the passage of laws related to climate change. At the federal level in Canada and the U.S., several concrete proposals for national mandatory greenhouse gas emissions reduction regimes have been developed and debated but no consensus on how to proceed has emerged in either country. In Canada, examples of provincial legislation already in place include taxes on carbon based fuels in B.C and Quebec and a greenhouse gas emissions intensity reduction regime in Alberta, which applies to greenhouse gas emitting facilities, including certain oil production facilities. There has been less legislative activity at the state level in the U.S, although there are a number of state led regional initiatives to develop a greenhouse gas emissions reduction and trading regime, including the Western Climate Initiative (or WCI) which has the support of a number of U.S. states and Canadian provinces. Although the pace remains uncertain, it is widely expected that the development of a climate change legislative regime will continue in North America, and that the oil and gas industry will increasingly be required to share in the regulatory burden. Any legislative measures that result in additional material costs for the Corporation, and/or for the Corporation's customers, could adversely affect our financial results, in the latter case indirectly by potentially causing a decrease in oil and gas exploration and production and a corresponding decrease in the demand for our services.

*Operating Risks and Insurance*

The Corporation's operations take place, in part, at well sites and are therefore subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures, and natural disasters which could result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. The Corporation's operations also involve volatile and at times toxic materials which can result in fires, explosions, burns, respiratory illness and other problems. These risks could expose the Corporation to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with clients, employees and regulators.

The Corporation has an insurance and risk management program in place to protect its assets, operations and employees and to address compliance with current safety and regulatory standards. In addition, the Corporation continuously monitors its activities for quality control and safety. However, the Corporation's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunctions, failures and natural disasters, and hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires or other conditions may be encountered in drilling and servicing wells. Although such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Corporation, there are no assurances that the Corporation's safety programs will always prevent risks and hazards and these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

Although the Corporation maintains insurance coverage against certain of the risks to which it is exposed which it considers adequate and customary in the oilfield services industry, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, there can be no assurance that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future. Further, there can be no assurance that the Corporation will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows and therefore on the dividends declared on the Common Shares.

*Capital Markets*

As a result of the uncertain and more volatile global economic situation, the Corporation, along with all participants in the oil and gas and oil and gas service industries, may have restricted access to capital and increased borrowing costs. The lending capacity of all financial institutions has been diminished and risk premiums have increased independent of the Corporation's business and asset base. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors, the overall state of capital markets and investor demand for investments in the energy industry and the Corporation's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

At December 31, 2010, the Partnership had approximately $27.9 million of unused credit available under its Senior Credit Facility.

Based on current funds available and expected cash from operations, the Corporation believes it has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operations is lower than expected or capital costs for these projects exceed current estimates, if the Corporation incurs major unanticipated expenses related to repairs to equipment, or if the Corporation seeks to acquire other business or business assets, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may have an adverse effect of the Corporation's business and operations, which effect may be material.

*Global Financial Conditions*

Global financial conditions have been subject to increased volatility and over the past two and half years numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of the Corporation to obtain equity or debt financing in the future, and if obtained, on terms favourable to the Corporation. If these increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares could continue to be adversely affected.

*Vulnerability to Market Changes*

Fixed costs, including leases, labour costs and depreciation, account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse effect on the Corporation's financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

*Proprietary Technology*

The success and ability of the Corporation to compete depends in part on the proprietary technologies of the Corporation, and the ability of the Corporation to prevent others from copying such proprietary technologies. The Corporation currently relies on industry confidentiality practices, in some cases by a letter agreement, brand recognition by Operators and in some cases patents (or patents pending) to protect its proprietary technology. The Corporation may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not the Corporation is successful.

Despite the efforts of the Corporation, the intellectual property rights of the Corporation may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Corporation may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Corporation's operations will prevent misappropriation or infringement.

*Risk of Third-Party Claims for Infringement*

A third party may claim that the Corporation has infringed such third party's intellectual property rights or may challenge the right of the Corporation in their intellectual property. In such event, the Corporation will undertake a review to determine what, if any, actions the Corporation should take with respect to such claim. Any claim, whether or not with merit, could be time consuming to evaluate, result in costly litigation, cause delays in the operations of the Corporation or require the Corporation to enter into licensing agreements that may require the payment of a license fee or royalties to the owner of the intellectual property. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation.

*Agreements and Contracts*

The business operations of the Corporation may depend on verbal, performance-based agreements with its client base that are cancellable at any time by either the Corporation or its clients. There can be no assurance that the Corporation's relationship with its clients will continue. A significant reduction or total loss of the business from these clients, if not offset by sales to new or existing clients, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

*Reliance on Significant Clients*

Certain of the Corporation's clients account for a potentially significant portion of the Corporation's revenues and income. The top five customers of the Corporation accounted for approximately 27% of its revenue for the year ended December 31, 2010, with one large independent exploration and production company accounting for approximately 11%. There is no guarantee that the Corporation could find new clients to replace the loss of any of its significant clients. A loss of any one or more of these significant clients could have a significant adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

*Reliance on Key Personnel*

The successful operation of the Corporation's business depends upon the relationships, abilities, expertise, judgment, discretion, integrity and good faith of the Corporation's executive officers, general managers, employees and consultants. In addition, the ability of the Corporation to expand its services will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees and drilling fluid technicians is high, and the supply is limited. The inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

*Competition*

The oilfield service industry is highly competitive and the Corporation competes with a substantial number of companies that have greater technical and financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to provide drilling fluid systems that meet the specific needs of its clients and its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that the Corporation's competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new or existing competitors will not enter the various markets in which the Corporation is active. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue to the Corporation.

The principal competitive factors in the drilling fluids market include reliability and performance of drilling fluids programs, service quality and availability, technical knowledge and experience, environmental and safety certification and price. Reliability and performance of a drilling fluids program is measured by the program's ability to enhance and improve production and to lower overall drilling time and costs. The Corporation's competitors offer similar services in all geographic regions in which the Corporation operates.

*Acquisition and Development Risks*

The Corporation expects to continue to selectively seek strategic acquisitions. The Corporation's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Corporation's resources, and to the extent necessary, the Corporation's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose the Corporation to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of the Corporation's operations; entry into markets in which the Corporation has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Corporation's ongoing business; and diversion of management time and resources.

*Failure to Achieve Benefits of the US Acquisitions*

The full benefits of the US Acquisitions will require the integration of management, administration and finance functions, and the implementation of appropriate operations, financial and management systems and controls in order to capture the benefits and efficiencies that were anticipated to result from the US Acquisitions. This will require substantial attention from management of the Corporation. The diversion of management attention, as well as any other difficulties that may be encountered in the transition and integration processes, could have an adverse impact on the Corporation's revenues and operating results, which could in turn impact dividends declared on the Common Shares. The Corporation could experience difficulties in effectively integrating the businesses and assets of the US Acquisitions. If any such difficulties resulted in the Corporation failing to achieve the anticipated benefits resulting from the US Acquisitions, the Corporation could face higher costs and lower than expected revenue and miss other market opportunities. There can be no assurance that the businesses of the US Acquisitions will be successfully integrated.

*Operational and Business Risks Relating to Acquisitions*

The Corporation has conducted due diligence on the business, assets and operations of the US Acquisitions in relation to business, legal, operational, financial and environmental matters but there can be no assurance that the Corporation has identified all of the potential liabilities related to those businesses and assets being acquired. In particular, if the assets of the US Acquisitions prove to be less valuable than anticipated, the Corporation's financial results could be adversely affected.

In addition, any future acquisitions could result in the incurrence of additional debt, costs, and contingent liabilities. The Corporation may also incur costs for and divert management attention to potential acquisitions that are never consummated. For acquisitions that are consummated, expected synergies may not materialize. The Corporation's failure to effectively address any of these issues could adversely affect its results of operations, financial condition and ability to service debt.

Although the Corporation plans to conduct due diligence for future acquisitions, there may be liabilities of the acquired businesses or assets that the Corporation fails or is unable to uncover during its due diligence investigation and for which the Corporation, as a successor owner, may be responsible. When feasible, the Corporation may seek to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor or for other reasons.

*Ability to Achieve Profitability and Manage Growth*

There can be no assurance that the Corporation will be able to achieve profitability in future periods. The Corporation's future operating results will depend on a number of factors, including its ability to continue to successfully execute the Corporation's strategic plan, which includes expanding relationships with existing clients, continuing to attract new clients, improving inventory management and profit margins, developing new products and technologies, and pursuing selective acquisitions.

There can be no assurance that the Corporation will be successful in achieving the objectives of its strategic plan or that its strategic plan will enable it to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of the Corporation's strategic plan could have a material adverse effect on its business, financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

There can be no assurance that the Corporation will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on it business, financial condition, results of operations and cash flow and therefore on dividends declared on the Common Shares.

*Potential Replacement or Reduced Use of Products and Services*

Certain of the Corporation's drilling fluid systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Corporation will need to keep current with the changing market for drilling fluids and technological and regulatory changes. If the Corporation fails to do so, Shareholders may be negatively affected.

*Performance of Obligations*

The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If the Corporation fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate contracts, including master service agreements, exposing the Corporation to loss of its professional reputation and risk of loss or reduced profits, or in some cases, the loss of a project.

*Risks Associated with Disclosure Controls and Procedures on Internal Control Over Financial Reporting*

The Corporation's business could be adversely impacted if it has deficiencies in its disclosure controls and procedures or internal controls over financial reporting.

The design and effectiveness of the Corporation's disclosure controls and procedures and internal controls over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continues to review the effectiveness of the Corporation's disclosure controls and procedures and internal controls over financial reporting, it cannot assure you that the Corporation's disclosure controls and procedures or internal controls over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal controls over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the Corporation's Common Share price, or otherwise materially adversely affect the Corporation's business, reputation, results of operation, financial condition or liquidity.

The design of the Corporation's disclosure controls and procedures and internal controls over financial reporting has been limited to exclude controls, policies and procedures of a business that the Corporation has acquired not more than 365 days before its financial year end.

*Forward-Looking Information May Prove Inaccurate*

Numerous statements containing forward-looking information are found in this Annual Information Form, documents incorporated by reference herein and other documents forming part of CESTC's public disclosure record. Such statements and information are subject to risks and uncertainties and involve certain assumptions, some, but not all, of which are discussed elsewhere in this document. The occurrence or non-occurrence, as the case may be, of any of the events described in such risks could cause actual results to differ materially from those expressed in the forward-looking information.

*Legal Proceedings*

The Corporation is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation is not material to the Corporation and will not have a material adverse effect on the Corporation's financial position or results of operations. In addition, future legal proceedings could be filed against the Corporation and no assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

*Uninsured or Underinsured Losses*

The Corporation maintains insurance at levels that it believes are reasonable and that are typical for its industry's insurance coverages. However, the Corporation cannot give any assurances that its insurance coverages will be adequate for any given risk or liability, that such insurance will continue to be available on commercially reasonable terms, that all events that could give rise to a loss or liability are insured or reasonably insurable or that its insurers would be capable of honouring their commitments if an unusually high number of claims were made against their policies. In addition, the amount of any insurance deductibles that the Corporation may pay may decrease the amount of dividends declared on the Common Shares.

*Dependence on Capital Markets to Fund Growth Strategy*

The ability of the Corporation to fund its growth strategy, including expanding or entering into new lines of business, making selective acquisitions, investing in further inventory or acquiring infrastructure will depend on the Corporation being able to acquire credit facilities on reasonable terms or to raise financing through equity and/or debt capital markets. If the Corporation is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to fund its growth strategy which could have an adverse effect on the prospects of the Corporation.

**Risks Relating to the Structure of the Corporation**

*Unpredictability and Volatility of Share Price*

The prices at which the Common Shares trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of Common Shares in the public trading markets. An increase in prevailing interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Common Shares.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

*Cash Dividends to Shareholders are Dependent on the Performance of the Corporation and its Subsidiaries*

There is no assurance regarding the amounts of cash to be generated by CESTC and its subsidiaries and therefore, funds available for dividends to Shareholders. The actual amount of cash available for dividends will depend on a variety of factors, including, without limitation, the performance of CESTC’s operating businesses, the effect of acquisitions or dispositions on CESTC, and other factors that may be beyond the control of CESTC. In the event significant sustaining capital expenditures are required by CESTC or the profitability of CESTC declines, there would be a decrease in the amount of cash available for dividends to Shareholders and such decrease could be material.

CESTC's dividend policy is subject to change at the discretion of the Board of Directors. CESTC's dividend policy is also limited by contractual agreements including agreements with lenders to the Corporation and its affiliates.

*Leverage and Restrictive Covenants*

The degree to which the Corporation is financially leveraged could have important consequences to the Shareholders, including: (i) a portion of the Corporation's cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for dividends on the Common Shares; and (ii) certain of the Corporation's borrowings will be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates. The Corporation's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Corporation's lender, HSBC, has been provided with security over all of the assets of the Partnership and its guarantors (including the Corporation and the Corporation's other subsidiaries (other than AES Holdco). A failure to comply with the obligations in the agreements in respect of the Senior Credit Facility could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Senior Credit Facility were to be accelerated, there can be no assurance that the Corporation's or the Partnership's assets would be sufficient to repay in full that indebtedness. See "Risk Factors – Risks Relating to the Corporation and its Business – Debt Service".

*Restrictions on Potential Growth*

The payout by the Corporation of a significant portion of its operating cash flow as dividends will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Corporation and its cash flow.

*Future Sales of Common Shares by CFS and Impact Vendor Group or the Vendor Group*

As at January 1, 2011, CFS and the Impact Vendor Group held, collectively, approximately 15% of the outstanding Common Shares. If either of CFS (or a member of the CFS Vendor Group) or members of the Impact Vendor Group sells a substantial number of its Common Shares in the public market, the market price of the Common Shares could fall. The perception among the public that such sales may occur could also cause such effect.

*Issuance of Additional Common Shares*

The Corporation may issue an unlimited number of additional Common Shares and Preferred Shares without the approval of the Shareholders such that the holders of Common Shares may be subject to a dilution of their interests. Shareholders have no pre-emptive rights in connection with such additional issues.

*Changes in Laws*

Income tax laws and other laws or government incentive programs relating to the oil and natural gas industry may in the future be changed or interpreted in a manner that adversely affects the Corporation and Shareholders. Tax authorities having jurisdiction over the Corporation or the Shareholders may disagree with the manner in which the Corporation calculates its income for tax purposes or could change their administrative practices to the Corporation's detriment or to the detriment of Shareholders.

Expenses incurred by the Corporation are only deductible to the extent they are reasonable. Although the Corporation is of the view that all expenses to be claimed by the Corporation should be reasonable and deductible, there can be no assurance that the applicable tax authorities will agree. If the applicable tax authorities were to successfully challenge the deductibility of such expenses, the return to Shareholders may be adversely affected.

*Adoption of International Financial Reporting Standards may adversely impact reported financial results*

The requirement for CESTC to implement IFRS to replace Canadian GAAP effective January 1, 2011, may materially affect the Corporation’s financial results as reported in its financial statements and its results of operations and may require CESTC to amend its Credit Facilities to address the changes in accounting principles. For additional information, see CESTC’s management's discussion and analysis for the year ended December 31, 2010.

*Conflicts of Interest*

Certain directors of the Corporation are associated with other companies or entities, including entities engaged in the oil and natural gas industry and the oilfield services business, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed in this Annual Information Form, none of the directors or senior officers of CESTC, and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, and no associate or affiliate of any of the foregoing has a material interest in any transaction involving the Corporation or in any proposed transaction which has materially affected or is reasonably expected to materially affect the Corporation:

## AUDIT COMMITTEE INFORMATION

The disclosure regarding the Corporation's Audit Committee required under Multilateral Instrument 52-110, adopted by certain of the Canadian securities regulatory authorities, is contained in Appendix "A" of this Annual Information Form. The Charter of the Audit Committee is contained in Appendix "B" of this Annual Information Form.

## LEGAL PROCEEDINGS

The Corporation is not a party to, and none of the property of assets of the Corporation is the subject of, any legal proceedings which are material to the Corporation or any contemplated legal proceeding, of which Management is aware.

## MATERIAL CONTRACTS

Other than in the ordinary course of the Corporation's business, there are no material contracts that have been entered into by the Corporation in the most recently completed financial year, or before the most recently completed financial year, that are still in effect.

## INTERESTS OF EXPERTS

Deloitte & Touche LLP is the auditor of the Corporation and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants, Alberta.

## TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc. at its principal offices in Calgary, Alberta, and Toronto, Ontario.

## ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on the internet on the Corporation's SEDAR profile at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans for the year ended December 31, 2010 will be contained in the Corporation's Information Circular for the Annual General Meeting of Shareholders to be held on or about June 16, 2011. Such information for the year ended December 31, 2009, is contained in the Corporation's Information Circular for the Annual General Meeting of Shareholders held on June 16, 2010. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2010, and the accompanying management's discussion and analysis of financial conditions and results of operations dated March 17, 2011. Shareholders who wish to receive printed copies of these documents free of charge should contact the Corporation using the contact information included on the final page of this Annual Information Form.

**SCHEDULE "A"**
**AUDIT COMMITTEE DISCLOSURE**
**PURSUANT TO MULTILATERAL INSTRUMENT 52-110**

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**Overview**

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities of oversight and supervision of, among other things:

- the annual audit and quarterly interim review of the financial statements of the Corporation, managing the relationship with the independent auditor and meeting with the independent auditor as required in connection with the audit services provided by the auditor;
- the pre-approval of the non-audit services provided by the independent auditor;
- the accounting and financial reporting practices and procedures of the Corporation;
- the adequacy of the internal controls and accounting procedures of the Corporation; and
- the quality and integrity of the financial statements and MD&A of the Corporation.

**The Audit Committee Charter**

The Audit Committee Charter is attached hereto as Schedule "B".

**Composition of the Audit Committee**

The Audit Committee is comprised of three directors, Messrs. Stewart (Chair), Kitagawa and Boyer, all of whom are independent in accordance with National Instrument 52-110 and are financially literate within the meaning of National Instrument 52-110. See "Directors and Officers".

**Relevant Education and Experience**

All members of the Audit Committee possess the work experience and education necessary to understand the accounting principles used by the Corporation to prepare its financial statements, the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves, experience preparing, analyzing or auditing financial statements that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements and an understanding of internal controls and procedures for financial reporting.

Below are brief biographies for the members of the Audit Committee which illustrate the relevant education and experience of each such member.

| Name | Principal Occupation and Biography |
|---|---|
| | |
| D. Michael G. Stewart | Mr. Stewart is a corporate director and the principal of the Ballinacurra Group, serves on the boards of directors of TransCanada Corporation, Pengrowth Energy Corporation and C&C Energia Ltd. Until March 2002, Mr. Stewart was Executive Vice President, Business Development of Westcoast Energy and was responsible for the development of Westcoast Energy's power, international and major new projects. Mr. Stewart graduated from Queen's University in Kingston, Ontario in 1973 with a Bachelor of Science degree with honours in Geological Sciences. He is a member of the Institute of Corporate Directors and the Association of Professional Engineers, Geologists and Geophysicists of Alberta (non-practising). |
| | |
| Colin D. Boyer | Independent Businessman. Mr. Boyer was, until August 15, 2006, the President and Chief Executive Officer of Birchill Energy Limited, a private oil and natural gas company. Mr. Boyer's 30 years of experience in the oil and natural gas industry includes acting as President of Boyer Petroleum Engineering Ltd. from 1985 to 2000, a consulting engineering firm providing services for field operations, production and reservoir analysis and management. Mr. Boyer is currently a director of publicly traded Ember Resources Inc. as well as several private oil and natural gas companies. Mr. Boyer has a Bachelor of Science degree with a major in Petroleum Engineering from the University of Wyoming (1974) and has been a member of the Association |

| Name | Principal Occupation and Biography |
|---|---|
| | |
| | of Professional Engineers, Geologists and Geophysicists of Alberta since 1976. |
| Kyle D. Kitagawa, CA | Mr. Kitagawa brings over 20 years experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa is the managing director of North River Capital Corp. In addition, Mr. Kitagawa serves as Chairman of Coral Hill Energy Ltd. and is also a Director of both ProspEx Resources Ltd. and Zargon Oil & Gas Ltd. Prior directorships included Advanced Mobile Power Systems, LLC, Esprit Exploration Ltd., Ferus Trust, Independent Energy Ltd., Invasion Energy Inc., Livingston Energy Ltd., Papier Masson Ltee. and Wave Energy Ltd.<br><br>He holds a Master of Business Administration degree from Queen's University, a Bachelor of Commerce from the University of Calgary and is a Chartered Accountant. |

## External Auditor Service Fees

The following table sets out the aggregate fees billed by the Corporation's external auditor for the years ended December 31, 2009, and December 31, 2010.

| Period Ended | Audit Fees(1) | Audit-Related Fees(2) | Tax Fees(3) | All Other Fees(4) |
|---|---|---|---|---|
| **December 31, 2009** | $214,067 | $23,691 | $199,004 | Nil |
| **December 31, 2010** | $305,120 | $126,323 | $100,897 | Nil |

**Notes:**

(1) Audit Fees are comprised of the aggregate fees billed by the Corporation's auditor. The Corporation has been billed for professional services for the audit of the Corporation's annual consolidated financial statements and reviews of the Corporation's quarterly financial statements, as well as services provided in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees are comprised of the aggregate fees billed for assurance and related services by the Corporation's external auditor that are reasonably related to the performance of the audit review of the Corporation's financial statements and are not reported under note (1) above.

(3) Tax Fees are comprised of the aggregate fees billed for professional services rendered by the Corporation's external auditor for tax compliance, tax advice, and tax planning.

(4) All Other Fees are comprised of the aggregate fees billed for products and services provided by the Corporation's external auditor, other than the services reported under notes (2), (3), and (4), above.

## SCHEDULE "B"
## AUDIT COMMITTEE CHARTER

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## PART I
## ESTABLISHMENT OF COMMITTEE

### 1. Committee Purpose

The Audit Committee (the "**Committee**") is established by the board of directors (the "**Board of Directors** ") of Canadian Energy Services & Technology Corp. (the "**Corporation**"), primarily for the purpose of overseeing the accounting and financial reporting processes of the Corporation and the reviews and audits of the financial statements of the Corporation.

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by monitoring, among other things:

(a) the quality and integrity of the financial statements and related disclosure of the Corporation;

(b) compliance by the Corporation with legal and regulatory requirements that could have a material effect upon the financial position of the Corporation which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole;

(c) the independent auditor's qualifications and independence; and

(d) performance of the Corporation's independent auditor.

### 2. Composition of Committee

The Committee shall consist of as many members as the Board of Directors shall determine, but in any event not fewer than three directors of the Corporation, provided that each member of the Committee shall be determined by the Board of Directors to be:

(a) an "unrelated" and "independent" director as defined in, and for the purposes of, any applicable governance guidelines or listing standards of any stock or securities exchange upon which the securities of the Corporation are, from time to time, listed; and

(b) an "independent" and "financially literate" director for the purposes of any applicable corporate, securities or other legislation or any rule, regulation, instrument, policy, guideline or interpretation under such legislation, including, but not limited to, National Instrument 52-110 – *Audit Committees*, promulgated under the *Securities Act* (Alberta).

### 3. Appointment of Committee Members

The members of the Committee shall be appointed by the Board of Directors on the recommendation of the Corporate Governance and Compensation Committee. The members of the Committee shall be appointed at the time of each annual meeting of shareholders and shall hold office until the next annual meeting, until they are removed by the Board of Directors or until their successors are earlier appointed, or until they cease to be directors of the Corporation.

**PART II**
**COMMITTEE PROCEDURE**

**4. Vacancies**

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board of Directors on the recommendation of the Corporate Governance and Compensation Committee and shall be filled by the Board of Directors, by resolution, if the membership of the Committee is fewer than three directors. The Board of Directors may remove and replace any member of the Committee.

**5. Committee Chair**

The Board of Directors shall appoint a chair (the "**Chair**") for the Committee. The Chair may be removed and replaced by the Board of Directors.

**6. Absence of Chair**

If the Chair is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

**7. Secretary of Committee**

The Committee shall appoint a Secretary who need not be a director of the Corporation.

**8. Regular Meetings**

The Chair, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least quarterly to approve the interim or annual financial statements of the Corporation, as applicable. The Committee at any time may, and at each regularly scheduled Committee meeting shall, meet without management present and shall meet periodically with management and the independent auditor of the Corporation. The Committee shall also meet separately with the independent auditor at every regularly scheduled meeting of the Committee at which the independent auditor is present and shall also meet separately with the Chief Financial Officer at every regularly scheduled meeting of the Committee.

**9. Special Meetings**

The Chair, any two members of the Committee, the independent auditor or the President and Chief Executive Officer of the Corporation may call a special meeting of the Committee.

**10. Quorum**

A majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

**11. Notice of Meetings**

Notice of the time and place of every meeting shall be given in writing or by e-mail or facsimile communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may, in any manner, waive notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

## 12. Agenda

The Chair shall develop and set the Committee's agenda, in consultation with other members of the Committee, the Board of Directors and management of the Corporation. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

## 13. Delegation

Subject to subsection 19(e), the Committee shall have the power to delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.

## 14. Access

In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of the Corporation and the Corporation.

## 15. Attendance of Others at a Meeting

At the invitation of the Chair, one or more officers, directors or employees of the Corporation may, and if required by the Committee shall, attend a meeting of the Committee.

## 16. Procedure, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board of Directors when the Committee may deem appropriate (but not later than the next meeting of the Board of Directors).

## 17. Outside Consultants or Advisors

The Committee, when it considers it necessary or advisable, may retain, at the Corporation's expense, outside consultants or advisors (including independent counsel) to assist or advise the Committee independently on any matter within its mandate. The Committee shall have the sole authority to retain or terminate such consultants or advisors, including the sole authority to approve the fees and other retention terms for such persons.

# PART III
# MANDATE OF COMMITTEE

## 18. Appointment of the Corporation's Independent Auditor

Subject to confirmation by the independent auditor of its compliance with regulatory registration requirements, the Committee shall recommend to the Board of Directors the appointment of the independent auditor for the purpose of preparing or issuing any audit report or performing other audit, review or attest services for the Corporation, such appointment to be confirmed by the Corporation's shareholders at each annual meeting. The Committee shall also recommend to the Board of Directors the engagement letter with the independent auditor, the approval of fees to be paid to the independent auditor for audit services and shall pre-approve the retention of the independent auditor for any permitted non-audit service. The Committee shall also be directly responsible for the oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The Committee shall communicate directly with the independent auditor. The independent auditor shall report directly to the Committee.

The Committee shall review the independence of the independent auditor including a written report from the independent auditor delineating all relationships between the independent auditor, the Corporation and the Corporation, considering whether the advisory services performed by the independent auditor during the course of the year have affected its independence, and ensuring that no relationship or service between the independent auditor, the Corporation and the Corporation is in existence that may affect the objectivity and independence of the auditor, or recommending appropriate action to ensure the independence of the independent auditor.

**19. Specific Mandates**

The Committee, to the extent required by applicable laws or rules, or otherwise considered by the Committee to be necessary or appropriate, shall:

(a) Oversight in Respect of Financial Disclosure

(i) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:

A. the audited annual financial statements;

B. the annual information form;

C. the annual management's discussion and analysis;

D. the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant financial information respecting the Corporation;

E. all financial statements included in prospectuses or other offering documents;

F. any significant financial information contained in all prospectuses and all documents which may be incorporated by reference in a prospectus;

G. any significant financial information respecting the Corporation contained in a material change report, business acquisition report or press release;

(ii) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:

A. the unaudited interim financial statements of the Corporation;

B. the quarterly management's discussion and analysis of the Corporation;

C. the interim reports of the Corporation;

(iii) review and discuss with management:

A. each press release which contains significant financial information respecting the Corporation (including, without limitation, annual and interim earnings press releases) or contains earnings guidance, prior to public dissemination thereof;

B. the use of "pro forma" or "adjusted" non-GAAP information;

C. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) and in accordance with the Disclosure and Media Policy of the Corporation, and the Committee need not discuss in advance each instance in which the Corporation may provide earnings guidance or presentations to rating agencies;

(iv) review with management and the independent auditor the scope of the audit, in particular the independent auditor's view of the Corporation's accounting principles as applied in the financial statements in terms of disclosure quality and evaluation methods, inclusive of the clarity of the Corporation's financial disclosure and reporting, degree of conservatism or aggressiveness of the Corporation's accounting principles and underlying estimates, and other significant decisions made by management in preparing the financial disclosure and reviewed by the independent auditor;

(v) review with management and the independent auditor major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls and procedures for financial reporting and management information systems and inquire of management and the independent auditor about significant risks and exposures to the Corporation that could significantly affect the Corporation's financial statements;

(vi) review with management and the independent auditor, and satisfy itself as to the adequacy of the procedures that are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of those procedures;

(vii) review with management and the independent auditor (including those of the following that are contained in any report of the independent auditor): (a) all critical accounting policies and practices to be used by the Corporation in preparing its financial statements; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of these alternative treatments, and the independent auditor's assessment of the alternatives; and (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;

(viii) review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet transactions on the Corporation's financial statements;

(ix) review the plans of management and the independent auditor regarding any significant changes in accounting practices or policies and the financial and accounting impact thereof;

(x) review with management, the independent auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;

(xi) review disclosures by the Corporation's President and Chief Executive Officer and Chief Financial Officer with respect to any required certification for the Corporation's financial statements by such individuals; and

(xii) discuss with management the Corporation's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's financial risk assessment and financial risk management policies and insurance policies.

(b) Oversight in Respect of Legal and Regulatory Matters

(i) review, if necessary, with legal counsel, the Corporation's compliance policies, legal matters and any material reports or inquiries received from regulators or governmental agencies that could have a material effect upon the financial position of the Corporation and which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole.

(c) Oversight in Respect of the Chief Financial Officer and Controller

(i) consult with management on management's appointment, replacement, reassignment or dismissal of the Chief Financial Officer of the Corporation; and

(ii) ensure the Chief Financial Officer of the Corporation and the Controller of the Corporation have access to the Chair, the Chairman of the Board of Directors and the Chief Executive Officer of the Corporation and the Controller of the Corporation, and shall meet separately with the Chief Financial Officer of the Corporation and the Controller of the Corporation to review any problems or difficulties he or she may have encountered in the performance of his or her responsibilities and report to the Board of Directors on such meetings.

(d) Oversight in Respect of the Independent Auditor

(i) meet with the independent auditor prior to the annual audit to review the planning and staffing of the audit;

(ii) review annually the independent auditor's formal written statement of independence delineating all relationships between itself and the Corporation and the Corporation and review all such relationships;

(iii) receive confirmation from the independent auditor as to its standing as a "participating audit firm" and its compliance with any restrictions or sanctions imposed by the Canadian Public Accountability Board as those concepts are set forth in National Instrument 52-108 of the Canadian Securities Administrators;

(iv) review and evaluate the independent auditor, including the lead partner of the independent auditor team;

(v) meet separately with the independent auditor to review with them any problems or difficulties they may have encountered and specifically:

A. any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and

B. any changes required in the planned scope of the audit;

and report to the Board of Directors on such meetings;

(vi) review the engagement reports of the independent auditor on unaudited financial statements of the Corporation; and

(vii) review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of the Corporation's present and former independent auditor.

(e) Oversight in Respect of Audit and Non-Audit Services

(i) have the sole authority to pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:

A. the aggregate amount of all such non-audit services provided to the Corporation or its subsidiaries constitutes not more than 5% of the total amount of fees paid by the

Corporation (and its subsidiaries) to the independent auditor during the fiscal year in which the non-audit services are provided;

B. such services were not recognized by the Corporation (or any subsidiary) at the time of the engagement to be non-audit services; and

C. such services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee; and

(ii) delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this section; provided that the decision of any member to whom authority is delegated to pre-approve an activity shall be presented to the Committee at the first scheduled meeting following such decision, and provided further that, if the Committee approves an audit service within the scope of the engagement of the independent auditor, such audit service shall be deemed to have been pre-approved for purposes of this section.

(f) Oversight in Respect of Certain Policies

(i) establish procedures for: (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and

(ii) periodically review the Corporation's public disclosure policy.

**20. Self-Evaluation**

The Committee shall conduct an annual performance self-evaluation and shall report to the Board the results of the self-evaluation.

**21. Non-Exhaustive List**

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight responsibilities.

**22. Review of Committee's Charter**

The Committee shall assess the adequacy of this Charter on an annual basis and recommend any changes to the Board of Directors.

**23. Oversight Function**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with generally accepted accounting principles. These are the responsibilities of management and the independent auditor. The Committee and its Chair are members of the Board of Directors, appointed to the Committee to provide broad oversight of the financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day to day operation or performance of such activities. The role of all Committee members is to oversee the process, not to certify or guarantee the accuracy or completeness of the external audit of the Corporation's financial information or public disclosure.

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