Canadian Energy
SERVICES

Annual Report

For the Year Ended December 31, 2011

Q4

Year ended December 31, 2011

as at March 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited Consolidated Financial Statements and notes thereto of Canadian Energy Services & Technology Corp., formerly Canadian Energy Services L.P. (collectively "CES" or the "Company") for the years ended December 31, 2011 and 2010, and CES' 2011 Annual Information Form. The information contained in this MD&A was prepared up to and including March 8, 2012, and incorporates all relevant considerations to that date.

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

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

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

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

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

CES' audited Consolidated Financial Statements and the financial information included in the MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "previous GAAP"). Comparative information for years ending on or before December 31, 2009, has been prepared under Canadian GAAP and has not been restated under IFRS.

Note 4 to the Consolidated Financial Statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the Consolidated Financial Statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Statement of Financial Position at January 1, 2010 and at December 31, 2010; and
- The Consolidated Statements of Comprehensive Income for the year ended December 31, 2010.

The most significant impacts of the adoption of IFRS, together with details of the IFRS 1 exemptions taken, are described in the "Transition to IFRS" section on page 28 of this MD&A. The adoption of IFRS does not impact the underlying operations of CES' business or its cash flows.

THREE-FOR-ONE STOCK SPLIT

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

BUSINESS OF CES

CES' business model is focused on the design and delivery of technically advanced fluids for the oil and gas industry. CES' business model requires limited re-investment capital to grow. As a result, CES has been able to capitalize on the growing market demand for drilling and production fluids in North America while generating free cash flow. CES returns much of this free cash flow back to shareholders through its monthly dividend.

The core business of CES is to design and implement drilling fluid systems for the North American oil and natural gas industry. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in various basins in the United States ("US"), with an emphasis on servicing the ongoing major resource plays. The drilling of those major resource plays includes wells drilled vertically, directionally, and, with increasing frequency, horizontally. Horizontal drilling is a technique utilized in tight formations like tight gas, liquids rich gas, tight oil, heavy oil, and in the oil sands. The designed drilling fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. CES' drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process, and to assist them in meeting operational objectives and environmental compliance obligations. CES markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of both its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

Clear Environmental Solutions ("Clear"), CES' 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.

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

PureChem Services ("PureChem"), CES' drilling fluid and production chemical manufacturing division, designs, manufactures, and sells specialty drilling fluids to CES, as well as stimulation and production chemicals to operators. The PureChem production facility is strategically located in Carlyle, SK.

CES' corporate 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 Drilling Fluids, LLC ("AES"), conducts operations in the United States through four regional divisions: the Rocky Mountain division from its office in Denver, Colorado; the Mid-Continent division from its office in Norman, Oklahoma; the Northeast division from its office in Pittsburgh, PA and the Gulf Coast division from its office in Houston, Texas. The Houston office also serves as the corporate headquarters for AES. AES has operations in thirteen states with stock point facilities located in Oklahoma, Texas, Pennsylvania, West Virginia, Colorado, North Dakota, Louisiana, and Utah.

NON-GAAP MEASURES

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

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010 *(1)*	**2011**	2010 *(1)*
Net income	**14,873**	9,427 *(2)*	**41,695**	34,309 *(2)*
Add back (deduct):				
Depreciation in cost of sales	**1,635**	1,196	**5,923**	3,777
Depreciation and amortization in general and administrative expenses	**910**	781	**3,527**	2,662
Interest expense, net of interest income	**809**	625	**2,769**	1,597
Current income tax expense	**1,024**	119	**5,444**	315
Future income tax expense (recovery)	**4,668**	4,044	**14,006**	(2,870)
Stock-based compensation	**1,029**	956	**3,324**	1,710
Unrealized foreign exchange (gain) loss	**(185)**	2	**(379)**	18
Unrealized derivative (gain) loss	**(242)**	(14)	**207**	(24)
Gain on disposal of assets	**(95)**	(12)	**(196)**	(13)
EBITDAC	**24,426**	17,124	**76,320**	41,481

Notes:
[1]All 2010 figures have been restated in accordance with International Financial Reporting Standards.
[2]Net income for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Refer to discussion on 'Current and Deferred Income Taxes' below.

Distributable earnings – means funds flow from operations less maintenance capital. See the definition of funds flow from operations below and the definition of maintenance capital under "Operational Definitions". Distributable earnings is a measure used by management and investors to analyze the amount of funds available to distribute to shareholders before consideration of funds required for growth purposes. Refer to "Liquidity and Capital Resources – Funds Flow from Operations" for the calculation of distributable earnings.

Funds flow from operations – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. Funds flow from operations assists management and investors in analyzing operating performance and leverage.

Funds flow from operations is calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010	**2011**	2010
Cash provided by (used in) operating activities	**(13,023)**	4,026	**(2,293)**	(15,529)
Adjust for:				
Change in non-cash operating working capital	**35,728**	12,355	**70,956**	55,090
Funds flow from operations	**22,705**	16,381	**68,663**	39,561

Gross margin – means revenue less cost of sales, which includes cost of product, field labour, and all field related operating costs. Management believes this metric provides a good measure of the operating performance at the field level. It should not be viewed as an alternative to net income.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010	**2011**	2010
Gross margin	**37,300**	26,281	**123,415**	68,406
as a percentage of revenue	**27%**	28%	**27%**	27%
Add back (deduct):				
Depreciation included in cost of sales (1)	**1,635**	1,071	**5,923**	3,777
Gain on disposal of assets included in cost of sales (1)	**(95)**	(12)	**(196)**	(13)
Cash gross margin	**38,840**	27,340	**129,142**	72,170
as a percentage of revenue	**28%**	29%	**28%**	29%

Notes:
1 Depreciation as it relates to operating activities and (gain) loss on disposal of assets are included in cost of sales under IFRS, and accordingly are added back to the gross margin in order to calculate a 'cash gross margin' consistent with that of historical measurement.

Payout ratio – means dividends declared as a percentage of distributable earnings. Refer to "Liquidity and Capital Resources – Funds Flow from Operations" for the calculation of the payout ratio.

These measures do not have a standardized meaning as prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other companies.

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Summary Financial Results *($000's, except per share amounts)*	Three Months Ended December 31, 2011	2010	% Change	Year Ended December 31, 2011	2010	% Change
Revenue	**138,793**	94,468	47%	**459,257**	249,116	84%
Gross margin [(1)]	**37,300**	26,281	42%	**123,415**	68,406	80%
Gross margin percentage of revenue [(1)]	**27%**	28%		**27%**	27%	
Income before taxes	**20,565**	13,590	51%	**61,145**	31,754	93%
per share – basic [(3)]	***0.37***	*0.25*	*48%*	***1.12***	*0.70*	*60%*
per share - diluted [(3)]	***0.36***	*0.25*	*44%*	***1.08***	*0.68*	*59%*
Net income	**14,873**	9,427 [(2)]	58%	**41,695**	34,309 [(2)]	22%
per share – basic [(3)]	***0.27***	*0.18* [(2)]	*50%*	***0.76***	*0.76* [(2)]	*0%*
per share - diluted [(3)]	***0.26***	*0.17* [(2)]	*53%*	***0.74***	*0.74* [(2)]	*0%*
EBITDAC [(1)]	**24,426**	17,124	43%	**76,320**	41,481	84%
per share – basic [(3)]	***0.44***	*0.32*	*38%*	***1.39***	*0.92*	*51%*
per share - diluted [(3)]	***0.43***	*0.31*	*39%*	***1.35***	*0.89*	*52%*
Funds flow from operations [(1)]	**22,705**	16,381	39%	**68,663**	39,561	74%
per share – basic [(3)]	***0.41***	*0.30*	*37%*	***1.25***	*0.87*	*44%*
per share - diluted [(3)]	***0.40***	*0.30*	*33%*	***1.22***	*0.85*	*44%*
Dividends declared	**7,156**	5,042	*42%*	**26,118**	14,040	*86%*
per share [(3)]	***0.13***	*0.10*	*30%*	***0.48***	*0.31*	*55%*

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2]Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the three and twelve months ended December 31, 2010 was $0.22 ($0.21 diluted) and $0.58 ($0.56 diluted), respectively. Refer to discussion on 'Current and Deferred Income Taxes' below.
[3]Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

CES' 2011 annual results reflect an increase in activity and revenue across all of CES' business segments over 2010. CES' dominant business line, the drilling fluids segment, experienced the most material gains as a result of increased industry activity and a continuing industry trend to drill more complex, deeper and longer horizontal wells. CES capitalized on this trend in the WCSB through its leading market share position and in the US by organically expanding off its two acquired platforms (the Champion Drilling Fluids acquisition completed on November 30, 2009 and the Fluids Management acquisition completed at the end of Q2 2010 with an effective date of June 30, 2010, collectively the "US Acquisitions").

Highlights for the three and twelve months ended December 31, 2011, in comparison to the three and twelve months ended December 31, 2010, for CES are as follows:

- CES generated gross revenue of $138.8 million during the fourth quarter of 2011, compared to $94.5 million for the three months ended December 31, 2010, an increase of $44.3 million or 47% on a year-over-year basis. For 2011, gross revenue totaled $459.3 million, compared to $249.1 million last year (2009 – $89.5 million), representing an increase of $210.1 million or 84% on a year-over-year basis. During Q4 2011, gross revenue was $2.44 per diluted share compared to $1.73 per diluted share for Q4 2010, an increase of 41%. For 2011, gross revenue was $8.13 per diluted share compared to $5.34 per diluted share in 2010 representing an increase of 52%. The year-over-year increases are a result of the acquisition of Fluids Management at the end of Q2 2010 (which associated revenues are not included in comparatives for the first half of

2010) and an increase in activity across all of the business segments of CES. For Canadian operations for the twelve months ended December 31, 2011, gross revenue from Clear was up 25%, Equal revenue was up 27%, and Canadian drilling fluids revenue was up 55% over the same period in 2010. The US operations contributed the majority of the year-over-year revenue gains with a 128% increase over the prior year, due to the inclusion of a full year of Fluids Management results and higher overall activity levels as a result of organic growth achieved across all of the US divisions.

- CES' estimated Canadian Market Share (refer to "Operational Definitions") was approximately 30% for the three months ended December 31, 2011, up from 28% for the three months ended December 31, 2010. Estimated market share in Western Canada averaged 28% in 2011 up from 27% during 2010. CES' market-share has remained relatively constant year-over-year but CES' operating days (refer to "Operational Definitions") in Western Canada have increased as market activity has increased. CES' operating days were estimated to be 13,156 for the three month period ended December 31, 2011, an increase of 31% from 10,054 operating days during the same period last year. Despite challenging weather conditions in the second quarter of 2011, which created an extended break-up, operating days in Western Canada were estimated to total 42,702 for 2011 compared to 32,313 during the same period last year, representing an increase of 32%. In Q4 2011, overall industry activity increased approximately 23% from an average monthly rig count in Q4 2010 of 398 to 489 based on CAODC published monthly data for Western Canada. For 2011, the CAODC average monthly rig count for Western Canada has averaged 417 as compared to 327 in 2010, representing a year-over-year increase of 28%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $54.9 million for the three months ended December 31, 2011 compared to $35.0 million for the three months ended December 31, 2010, representing an increase of $19.9 million or 57%. For the twelve month period ended December 31, 2011, revenue from drilling fluids related sales of products and services in Western Canada was $173.0 million compared to $112.3 million for the twelve months ended December 31, 2010, representing an increase of $60.7 million or 54%. Average revenue per operating day for the three months ended December 31, 2011, was $4,176 compared to $3,581 for the three months ended December 31, 2010, representing an increase of 17%. For 2011, daily average revenue per operating day was $4,050 compared to $3,478 in 2010, representing a year-over-year increase of 16%. Average revenue per operating day has trended upward over the last several years as operators continue to drill more complex, deeper and longer horizontal wells in the WCSB. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased.

- CES' United States Market Share (refer to "Operational Definitions") for the three months ended December 31, 2011, was estimated to be 6%, consistent with 6% for the three months ended December 31, 2010. Estimated market share in the United States averaged 6% in 2011 as compared to 4% in 2010. Operating days (refer to "Operational Definitions") in the United States were estimated to be 10,520 operating days for the three month period ended December 31, 2011, an increase of 20% from 8,780 operating days during the same period last year. Estimated operating days during 2011were 39,013 as compared to 21,091 operating days in 2010, representing an increase of 85%. The significant year-over-year increase in the Company's US results is due to the inclusion of Fluids Management activity for a full year in 2011 (Fluids Management was acquired at the end of Q2 2010 and its operations were not included in comparatives for the first half of 2010) and the organic growth achieved from Champion Drilling Fluids and Fluids Management divisions subsequent to their respective acquisitions.

- Revenue generated in the US from drilling fluid sales of products and services for the three months ended December 31, 2011, was $73.4 million as compared to the fourth quarter of 2010 with revenue of $49.3 million, representing an increase of $24.1 million or 49% on a year-over-year basis. For 2011, revenue generated in the US totalled $250.2 million as compared to $109.7 million in the previous year representing an increase of $140.5 million or 128%. Daily average revenue per operating day for the three months ended December 31, 2011, was $6,973 compared to $5,615 for the three months ended December 31, 2010, representing an increase of 24%. For 2011, daily average revenue per operating day was $6,414 compared to $5,201 in 2010, representing a year-over-year increase of 23%. The increase in average revenue per operating day in the US is a consequence of a similar trend as to what has been experienced in Canada; operators continue to drill more complex, deeper, and longer horizontal wells resulting in the increased usage of fluids and more technically advanced fluids.

- During the fourth quarter of 2011, revenue from trucking operations, gross of intercompany eliminations, totalled $5.6 million, an increase of $0.9 million or 18% from the $4.7 million for the three months ended December 31, 2010. For 2011, revenue from trucking operations, gross of intercompany eliminations, totalled $19.4 million as compared to $15.3 million during 2010 representing an increase of $4.1 million or 27%. The respective year-over-year increase is due primarily to the increased industry activity in Edson and the continued expansion of the Company's trucking operations in both Edson and Saskatchewan.

- Clear Environmental Solutions division generated $5.1 million of revenue for the three month period ended December 31, 2011, compared to $5.7 million during the prior year representing a decrease of $0.6 million or 10%. Clear's revenue in the fourth quarter of 2011 was lower than expected as a result of warm weather in the oilsands region of Alberta that delayed several planned projects from starting on time. Revenue from Clear for the twelve month period ended December 31, 2011 totalled $17.4 million as compared to $14.0 million for the same period in 2010, representing an increase of $3.4 million or 25%. Year-over-year, the Clear Environmental division has seen higher overall activity levels and continues to benefit from increased integration with the drilling fluids division, from diversification strategies into oil sands and horizontal drilling, and general improvement in industry activity levels.

- For the three month period ended December 31, 2011, CES recorded gross margin of $37.3 million or 27% of revenue, compared to gross margin of $26.3 million or 28% of revenue generated in the same period last year. The decrease in gross margin percentage as compared to the fourth quarter of 2010 is a result of several contributing factors. The first factor relates to CES' Canadian operations in which CES purchased a much larger volume of base oil, a commodity product that is sold at a low margin, in order to build invert drilling mud. The result is that gross revenues have increased but overall gross margin as a percentage is reduced due to a higher proportion of invert sales. CES purchased this base oil in response to industry conditions in 2011 that made it more difficult for the operators to acquire the base oil directly and the increasing trend by operators to use invert to drill horizontal wells. The second factor is an increase in third party trucking costs in the US. This is essentially a pass-through cost in the US market which has had a negative effect overall on the gross margin percentage achieved. The final factor has been price increases to a number of CES' input product costs experienced in the second half of 2011; during the fourth quarter CES worked to pass on these price increases in a phased approach.

- For the twelve month period ended December 31, 2011, gross margin totalled $123.4 million or 27% of revenue as compared to $68.4 million or 27% in 2010. Note, under IFRS, depreciation as it relates to operating activities and gain or loss on disposal of assets are both included in cost of sales. Refer to gross margin reconciliation under "Non-GAAP Measures" for additional information.

- For the three month period ended December 31, 2011, general and administrative costs were $16.0 million as compared to $12.4 million for the comparative period in 2010, an increase of $3.6 million. As a percentage of revenue for the three months ended December 31, 2011, general and administrative costs were 12% as compared to 13% for the fourth quarter in 2010. For the twelve month period ended December 31, 2011, general and administrative costs were $58.7 million as compared to $36.0 million for the comparative period in 2010, representing an increase of $22.7 million. As a percentage of revenue for the year ended December 31, 2011, general and administrative costs were 13% as compared to 14% in 2010, representing a decrease of 1%. General and administrative costs are higher on a year-over-year comparison due to a combination of factors including the acquisition of Fluids Management at the end of Q2 2010 (which associated costs are not included in comparatives for the first half of 2010) and significantly higher activity during 2011 as compared to 2010. Included in general and administrative expenses during the three and twelve months ended December 31, 2011, are stock-based compensation costs of $1.0 million and $3.3 million, respectively (2010 - $1.0 million and $1.7 million, respectively) and depreciation and amortization costs of $0.9 million and $3.5 million, respectively (2010 - $0.8 million and $2.7 million, respectively).

- EBITDAC (refer to "Non-GAAP Measures") for the three months ended December 31, 2011, was $24.4 million as compared to $17.1 million for the three months ended December 31, 2010, representing an increase of $7.3 million or 43%. For the twelve month period ended December 31, 2011, EBITDAC totalled $76.3 million as compared to $41.5 million in 2010 representing an increase of $34.8 million or 84%. CES recorded EBITDAC per share of $0.44 ($0.43 diluted) for the three months ended December 31, 2011 versus EBITDAC per share of $0.32 ($0.31 diluted) in 2010, an increase of 38%. For 2011, CES recorded EBITDAC per share of $1.39 ($1.35 diluted) versus EBITDAC per share of $0.92 ($0.89 diluted) in 2010, an increase of 51%. The increase in EBITDAC per share reflects the inclusion of a full year of Fluids Management results and demonstrates CES' ability to grow the business with limited dilution to shareholders.

- CES recorded net income of $14.9 million for the three month period ended December 31, 2011, as compared to $9.4 million in the prior year. CES recorded net income per share of $0.27 ($0.26 diluted) for the three months ended December 31, 2011 versus $0.18 ($0.17 diluted) in 2010. For the twelve month period ended December 31, 2011, CES recorded net income of $41.7 million, compared with the $34.3 million generated for the same period last year (2009 – $7.5 million). Year-over year basic net earnings per share were $0.76 ($0.74 diluted) consistent with $0.76 ($0.74 diluted) per share for the same period in 2010 (2009 –$0.67 basic ($0.66 diluted)). Income for the twelve months ended December 31, 2010, included the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Accordingly, this resulted in an increase to net income of $7.9 million (2010 Canadian GAAP net income - $26.3 million) as a result of the adoption of IFRS. Historically, under Canadian GAAP, net income per share for the three months ended December 31, 2010 was $0.22 ($0.21 diluted) and net income per share for the year ended December 31, 2010 was $0.58 ($0.56 diluted), respectively. Refer to 'Current and Deferred Income Taxes' section below for additional discussion.

- On December 21, 2011, the Company entered into a new three year credit agreement with a Canadian commercial bank and its US based affiliate providing for the New Senior Credit Committed Facility (the "Committed Facility"), permitting it in aggregate to borrow up to $120.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The maximum available draw on the $120.0 million facility at December 31, 2011, based on eligible accounts receivable, inventory, and certain capital asset balances, was $120.0 million (December 31, 2010 - $nil). In conjunction with the new Committed Facility, the Company repaid its demand operating facility and its outstanding long-term loan facilities balances on December 23, 2011. The balance outstanding on the Committed Facility at December 31, 2011 was $93.4 million. The amount due and payable under the Committed Facility in the twelve month period ended December 31, 2012 is $nil. As such the entire amount outstanding under the Committed Facility is classified as long-term debt on the Consolidated Statements of Financial Position. By retiring the demand operating facility and replacing it with the Committed Facility, CES has managed to upsize its credit capacity, extend the term to three years, and lower the interest costs associated with borrowing.

- CES continued to maintain a strong statement of financial position or "balance sheet" at December 31, 2011, with positive net working capital of $153.7 million (December 31, 2010 - $34.1 million) representing an increase of $119.6 million. The year-over-year increase in working capital balances is comprised of a $65.3 million increase in accounts receivable, $28.1 million increase in inventory, $2.7 million increase in prepaid expenses, $44.2 million net repayment of the Company's demand operating facility, net of a $24.4 million increase in accounts payable and accrued liabilities.

- In 2011, CES increased its monthly dividend twice from a post-split amount of $0.033 cents per share to $0.045 cents per share, which is an increase of $0.012 cents per share or 36%. During the fourth quarter of 2011, CES declared monthly dividends in aggregate of $0.13 per share for the quarter. This compares to $0.10 per share for the comparable quarter in 2010. During the year ended December 21, 3011, CES declared total dividends per common share of $0.476 (December 31, 2010 – $0.307). During the fourth quarter of 2011, the payout ratio averaged 33% as compared to 32% in 2010, representing an increase of 2%. For 2011, the payout ratio averaged 39% as compared to 38% in 2010. Management and the Board of Directors review the appropriateness of dividends on a monthly basis, taking into account industry conditions, growth opportunities requiring expansion capital, and management's forecast of distributable earnings and payout ratio.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000's, except per share amounts)	**2011**	2010	$ Change	% Change
Revenue	**138,793**	94,468	44,325	47%
Cost of sales	**101,493**	68,187	33,306	49%
Gross margin (1)	**37,300**	26,281	11,019	42%
Gross margin percentage of revenue (1)	**27%**	28%		
General and administrative expenses	**16,010**	12,357	3,653	30%
Finance costs (income)	**725**	334	391	117%
Income before taxes	**20,565**	13,590	6,975	51%
Current income tax expense	**1,024**	119	905	761%
Future income tax expense	**4,668**	4,044	624	15%
Net income	**14,873**	9,427 (2)	5,446	58%
Net income per share – basic (3)	***0.27***	*0.18 (2)*	*0.09*	*50%*
Net income per share – diluted (3)	***0.26***	*0.17 (2)*	*0.09*	*53%*
EBITDAC (1)	**24,426**	17,124	7,302	43%

Common Shares Outstanding	**2011**	2010	% Change
End of period (3)	**55,138,435**	54,395,487	1%
Weighted average			
- basic (3)	**55,001,647**	53,776,982	2%
- diluted (3)	**56,870,630**	54,504,694	4%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2]Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the three months ended December 31, 2010 was $0.22 ($0.21 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.
[3]Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.

	Year Ended December 31,			
($000's, except per share amounts)	**2011**	2010	$ Change	% Change
Revenue	**459,257**	249,116	210,141	84%
Cost of sales	**335,842**	180,710	155,132	86%
Gross margin (1)	**123,415**	68,406	55,009	80%
Gross margin percentage of revenue (1)	**27%**	27%		
General and administrative expenses	**58,693**	35,950	22,743	63%
Finance costs	**3,577**	702	2,875	410%
Income before taxes	**61,145**	31,754	29,391	93%
Current income tax expense	**5,444**	315	5,129	1628%
Future income tax expense (recovery)	**14,006**	(2,870)	16,876	588%
Net income	**41,695**	34,309 (2)	7,386	22%
Net income per share – basic (3)	***0.76***	*0.76 (2)*	-	*0%*
Net income per share – diluted (3)	***0.74***	*0.74 (2)*	-	*0%*
EBITDAC (1)	**76,320**	41,481	34,839	84%

Common Shares Outstanding	**2011**	2010	% Change
End of period [(3)]	**55,138,435**	54,395,487	1%
Weighted average			
- basic [(3)]	**54,745,391**	45,289,950	21%
- diluted [(3)]	**56,483,369**	46,627,046	21%

	As at		
Financial Position ($000's)	**December 31, 2011**	December 31, 2010	% Change
Net working capital [(4)(5)]	**153,660**	34,117	350%
Total assets	**385,351**	287,870	34%
Long-term financial liabilities [(4)(5)]	**96,779**	5,278	1734%
Shareholders' equity	**204,060**	179,017	14%

Notes:

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

[2] *Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the twelve months ended December 31, 2010 was $0.58 ($0.56 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.*

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

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

[5] *Includes long-term portion of the Committed Facility, vehicle financing, committed loans, and finance leases.*

Revenue and Operating Activities

CES generated gross revenue of $138.8 million during the fourth quarter of 2011, compared to $94.5 million for the three months ended December 31, 2010, an increase of $44.3 million or 47% on a year-over-year basis. For the twelve month period ended December 31, 2011, CES generated gross revenue of $459.3 million as compared to $249.1 million for the same period in 2010 (2009 – $89.5 million), representing an increase of $210.1 million or 84%. The respective year-over-year increases reflect the inclusion of a full year of results from the Fluids Management acquisition in 2011, and higher overall activity levels and revenue across all of CES' business segments as drilling activity continued to rebound off the lows experienced in 2009 throughout the North American Market ("NAM"). CES' dominant business line, the drilling fluids segment, experienced the most material gains as a result of increased industry activity and a continuing industry trend to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased. CES capitalized on this trend in the WCSB through its leading market share position, and in the US as a result of the US Acquisitions, and the organic growth that the Company has been able to generate off of these acquired platforms.

Of the revenue generated during the fourth quarter of 2011, $54.9 million (2010 - $35.0 million) was generated in the Western Canadian drilling fluids business; $73.4 million (2010 - $49.3 million) was generated in the US drilling fluids business; $5.1 million (2010 - $5.7 million) was contributed by the Clear environmental division, and $5.6 million (2010 - $4.7 million), gross of intercompany eliminations of $0.2 million (2010 - $0.3 million), was generated by trucking operations.

For the year ended December 31, 2011, $173.0 million (2010- $111.3 million) was generated in the Western Canadian drilling fluids business; $250.2 million (2010 - $109.7 million) was generated in the US drilling fluids business; $17.4 million (2010 - $14.0 million) was contributed by the Clear environmental division, and $19.4 million (2010 - $15.3 million), gross of intercompany eliminations of $0.8 million (2010 - $1.1 million), was generated by trucking operations.

According to CAODC published monthly data for Western Canada, the active monthly rig count in Western Canada averaged 489 for the three months ended December 31, 2011, representing a 23% increase from the average rig count of 398 during the fourth quarter of 2010. For 2011, the CAODC average monthly rig count for Western Canada has averaged 417 compared to 327 in 2010, representing a year-over-year increase of 28%.

CES estimated operating days (refer to "Operational Definitions") from its drilling fluids services have increased across all segments over the respective 2010 comparatives as follows:

	Three Months Ended December 31,		Year Ended December 31,	
	2011	2010	**2011**	2010
Canada	**13,156**	10,054	**42,702**	32,313
US	**10,520**	8,780	**39,013**	21,091
Total Operating Days	**23,676**	18,834	**81,715**	53,404

Part of the increase in the year-over-year US Operating Days is attributable to the inclusion of a full year of Fluids Management activity in 2010.

CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada was 30% for the three months ended December 31, 2011, up from 28% for the three months ended December 31, 2010. In 2011, CES' estimated market share in Western Canada averaged 28%, up from 27% for the same period in 2010. CES believes its technology focused solutions have resulted in an increased market share in Western Canada as a larger percentage of drilling activity is focused on deeper, horizontal wells and the economics of drilling have become more difficult for operators.

In the United States, CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended December 31, 2011, was estimated to be 6%, consistent with 6% for the three months ended December 31, 2010. For 2011, CES' estimated market share in the United States averaged 6% as compared to 4% for the same period in 2010. The year-over-year increase in the Company's United States Market Share is due to the inclusion of a full year of results from the Fluids Management acquisition and higher overall activity levels as a result of organic growth achieved across all of the US divisions.

Revenue per estimated operating day for the Canadian and US drilling fluids segments have increased over 2010 and 2009 comparatives as follows:

	Three Months Ended December 31,			Year Ended December 31,		
$000's	**2011**	2010	2009	**2011**	2010	2009
Canadian Drilling Fluids	**4,176**	3,581	2,920	**4,050**	3,478	3,353
United States Drilling Fluids	**6,973**	5,615	4,087	**6,414**	5,201	4,619

For both the three and twelve month periods ended December 31, 2011, CES top five customers accounted for 33% of total revenue as compared to 34% and 27%, respectively, for the same periods in 2010. During 2011, one customer accounted for 14% of the Company's total revenue (Q4 2011 – 14%), whereas in the same period in 2010 one customer accounted for 11% of total revenue (Q4 2010 – 15%).

Overall, CES' drilling fluid business continues to focus on the ongoing major resource plays and, in particular, horizontal drilling activity predominantly focused on either oil or liquids rich gas targets. Horizontal drilling represents a significantly increasing share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex and deeper wells. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled, and becomes even more critical as operators drill horizontally.

Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, field related depreciation, and all other related field costs. Under IFRS, field related depreciation of property and equipment, as well as gains and losses on disposal of assets relating to field equipment, are included in the gross margin calculation. Please refer to gross margin reconciliation under "Non-GAAP Measures" for a reconciliation of gross margin under IFRS to previous GAAP. Margins vary due to a change in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, trucking, environmental, etc.). Generally, labour costs have less of an impact on CES' margins than other cost elements such as product costs. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

CES achieved gross margin of $37.3 million or 27% of revenue for the three month period ended December 31, 2011, as compared to $26.3 million or 28% of revenue in the fourth quarter of 2010. The decrease in gross margin percentage as compared to the fourth quarter of 2010 is a result of several contributing factors. The first factor relates to CES' Canadian operations in which CES purchased a much larger volume of base oil, a commodity product that is sold at a low margin, in order to build invert drilling mud. The result is that gross revenues have increased but overall gross margin as a percentage is reduced due to a higher proportion of invert sales. CES purchased this base oil in response to industry conditions in Q4 2011 that made it more difficult for the operators to acquire the base oil directly and the increasing trend by operators to use invert to drill horizontal wells. The second factor is an increase in third party trucking costs in the US. This too is essentially a pass-through cost in the US market which has had a negative effect overall on the gross margin percentage achieved. The final factor has been price increases to a number of CES' input product costs experienced in the second half of 2011. During the fourth quarter CES worked to pass on these price increases in a phased approach. Included in cost of sales for the three months ended December 31, 2011, was depreciation of field related property and equipment of $1.6 million (2010 – $1.1 million) and a gain on disposal of assets of $0.1 million (2010 – gain of $0.01 million).

For the year ended December 31, 2011, CES achieved a gross margin of $123.4 million or 27% of revenue compared to $68.4 million or 27% of revenue in 2010. Included in cost of sales for the year ended December 31, 2011, was depreciation of field related property and equipment of $5.9 million (2010 – $3.8 million) and a gain on disposal of assets of $0.2 million (2010 – gain of $0.01 million).

General and Administrative Expenses ("G&A")
As CES' business has expanded geographically into the US and as activity levels have risen, so have the associated G&A expenses to run the business. G&A for the three month period ended December 31, 2011, was $16.0 million as compared to $12.4 million for the same period in 2010, representing an increase of $3.6 million or 30% year-over-year. G&A as a percentage of revenue for the three months ended December 31, 2011, was 12% (2010 – 13%). For 2011, G&A was $58.7 million as compared to $36.0 million for the same period in 2010, representing an increase of $22.7 million or 63%. G&A as a percentage of revenue for the year ended December 31, 2011, was 13% (2010 – 14%). G&A costs are higher on a year-over-year comparison due to a combination of factors including the inclusion of Fluids Management general and administrative costs for a full year during 2011, higher staff levels and the associated compensation costs, and higher activity during 2011 as compared to 2010. Included in general and administrative expenses for the three and twelve months ended December 31, 2011, are stock-based compensation costs of $1.0 million and $3.3 million, respectively (2010 - $1.0 million and $1.7 million), and depreciation and amortization of $0.9 million and $3.5 million, respectively (2010 - $0.8 million and $2.7 million).

Depreciation and Amortization
Depreciation and amortization of property and equipment, and intangibles, respectively, totalled $2.5 million for the three month period ended December 31, 2011, as compared to $2.0 million for the same period in 2010. For the three months ended December 31, 2011, $1.6 million (2010 – $1.2 million) of depreciation was included in cost of sales and $0.9 million (2010 – $0.8 million) of depreciation and amortization was included in general and administrative expenses. For the twelve months ended December 31, 2011, depreciation and amortization of property and equipment, and intangibles, totalled $9.4 million as compared to $6.4 million in 2010. For the twelve months ended December 31, 2011, $5.9 million (2010 – $3.8 million) of depreciation was included in cost of sales and $3.5 million (2010 – $2.7 million) of depreciation and amortization was included in general and administrative expenses. The year-over-year increase in depreciation and amortization expense is primarily attributable to the expanded operations of CES compared to the previous year, including a full year of the Fluids Management acquisition and the Company's expansion of operations in both Canada and the United States during 2010 and 2011, and the increase in depreciation and amortization of fixed and intangible assets relating to the Company's Fluids Management acquisition.

Stock-Based Compensation
Stock-based compensation was $1.0 million for the three months ended December 31, 2011, as compared to $1.0 million during the same period last year. For 2011, stock-based compensation was $3.3 million as compared to $1.7 million in 2010. The respective year-over-year increase is primarily attributable to the issuance of share rights under the share rights incentive plan during the last quarter of 2010 and throughout 2011 and the issuance of restricted share units under the restricted share units plan during the last half of 2011.

Interest Expense
Finance costs include interest expense of $0.8 million for the three months ended December 31, 2011, compared to $0.6 million, for in the fourth quarter of 2010. In 2011, CES incurred interest expense of $2.8 million, as compared to $1.6 million during

2010. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various long-term debt, operating loan facility, and lease facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans, committed debt facilities, capitalized lease facilities, and the operating loan facility.

Foreign Exchange Gains and Losses
Finance costs for the three months ended December 31, 2011, include a net foreign exchange loss of $0.1 million (2010 – a gain of $0.3 million) primarily related to foreign exchange losses on the Company's US denominated cash. For the year ended December 31, 2011, CES recorded a net foreign exchange loss of $0.7 million (2010 – a gain of $0.9 million) primarily related to foreign exchange losses on the Company's US denominated cash balances, foreign currency denominated payables, and $0.6 million relating to the settlement of certain intercompany balances between CES and its US subsidiary, AES.

Realized and Unrealized Derivative Gains and Losses
Finance costs for the three and twelve month periods ended December 31, 2011, include a realized derivative loss of $0.04 million and a realized derivative gain of $0.1 million, respectively (2010 – a gain of $0.004 million and a loss of $0.02 million, respectively), relating to its foreign currency derivative contracts. For the three and twelve month periods ended December 31, 2011, CES recorded an unrealized gain of $0.2 million and an unrealized loss of $0.2 million, respectively (2010 – a gain of $0.014 million and $0.02 million, respectively) relating to its foreign currency derivative contracts. The unrealized gain in Q4 2011 relates to the mark-to-market of outstanding unsettled foreign currency derivative contracts at December 31, 2011, and was a result of the depreciation of the US dollar relative to the Canadian dollar in the fourth quarter. As of December 31, 2011, the Company had financial derivative liabilities of net $0.2 million relating to its outstanding derivative contracts.

CES has a Board approved risk management policy that sets out the guidelines and parameters management follows when approaching its risk management strategies. At December 31, 2011, the Company had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases pursuant to its Canadian operations:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2012	US$495	Deliverable Forward	Physical Purchase	$1.0227
February 2012	US$595	Deliverable Forward	Physical Purchase	$1.0219
March 2012	US$242	Deliverable Forward	Physical Purchase	$1.0220
Total	US$1,332			$1.0222

At December 31, 2011, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to upcoming US dollar denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2012	US$686	Deliverable Forward	Physical Sale	$0.9947
February 2012	US$686	Deliverable Forward	Physical Sale	$0.9858
March 2012	US$686	Deliverable Forward	Physical Sale	$0.9866
April 2012	US$686	Deliverable Forward	Physical Sale	$0.9711
May 2012	US$686	Deliverable Forward	Physical Sale	$0.9853
June 2012	US$686	Deliverable Forward	Physical Sale	$0.9892
July 2012	US$686	Deliverable Forward	Physical Sale	$0.9625
August 2012	US$686	Deliverable Forward	Physical Sale	$0.9936
September 2012	US$686	Deliverable Forward	Physical Sale	$1.0004
October 2012	US$536	Deliverable Forward	Physical Sale	$1.0460
November 2012	US$536	Deliverable Forward	Physical Sale	$1.0462
December 2012	US$536	Deliverable Forward	Physical Sale	$1.0317
Total	US$7,782			$0.9970

Current and Deferred Income Taxes

During the three and twelve months ended December 31, 2011, the Company recorded current income tax expense of $1.0 million and $5.4 million respectively as compared to $0.12 million and $0.3 million respectively in 2010. The current income tax expense is related to taxable income in the US in which the Company does not have loss carry forwards to offset.

Upon the completion of the Conversion (refer to page 35 for additional discussion) in January 2010, CES acquired significant Canadian tax shelter in the form of non-capital and capital loss pools. As a result of the transition to IFRS, the calculated full future benefit of the acquired non-capital losses has been recorded in the Q1 2010 comparative period and the resulting increase to net income has been credited to retained earnings in Q1 2010. This accounting under IFRS has significantly altered the 2010 comparative figures with respect to net income and earnings per share calculations as detailed in various sections throughout this MD&A.

In the fourth quarter of 2011, the Company recorded a deferred income tax expense of $4.7 million compared to a deferred income tax expense of $4.0 million in Q4 2010. For 2011, the Company recorded a deferred income tax expense of $14.0 million compared to a deferred income tax recovery of $2.9 million in the prior year. The deferred income tax expense recorded for the three and twelve months ended December 31, 2011, relates to a combination of changes in the temporary differences as well as the estimated use of the Company's non-capital tax loss pools in both Canada and the United States.

In Q1 2010, the accounting treatment under IFRS of the deferred tax credit recognized upon completion of the Conversion is the most significant change from Canadian GAAP upon adoption of IFRS. As previously reported under Canadian GAAP, a future income tax asset of $15.5 million and deferred tax credit of $12.7 million was recognized effective January 1, 2010, with the difference of $2.8 million representing the consideration paid to Nevaro. During 2010, under Canadian GAAP, the deferred tax credit was amortized in proportion to the corresponding future income tax asset as the tax pools were utilized.

Under IFRS, a deferred tax asset was recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred tax asset recognized in the three months ended March 31, 2010, was initially measured at an amount equal to the consideration paid of $2.8 million and immediately following the Conversion the deferred tax asset was re-measured to the extent that it is probable that the associated tax losses will be utilized. Based on management's estimate, it is expected that all non-capital tax loss pools will be fully utilized, however, the Company has not recorded any deferred tax asset with respect to its capital loss carry forward pools. As such, this has resulted in an increase to the deferred tax asset in Q1 2010 with an equal and offsetting increase to deferred income tax recovery in the period. There is no deferred tax credit recorded on acquisition of the deferred tax losses or subsequent to the completion of the transaction. As a result, the Company has made an adjustment to reverse any previously recognized deferred tax credit and has made an adjustment to recognize any previously unrecognized deferred tax assets to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered. The initial total deferred tax asset recognized under both Canadian GAAP and IFRS is $15.5 million. The re-measurement was recognized in income in the first quarter of 2010 upon transition to IFRS. Accordingly, for the three months ended December 31, 2010, deferred income tax expense has increased by $2.3 million and for the twelve months ended December 31, 2010 deferred income tax recovery has increased by $7.9 million when compared to previous Canadian GAAP for the respective periods.

Net Working Capital

At December 31, 2011, the Company had positive net working capital of $153.7 million (December 31, 2010 - $34.1 million) representing an increase of $119.6 million. The increase in working capital balances is comprised of a $65.3 million increase in accounts receivable, $28.1 million increase in inventory, $2.7 million increase in prepaid expenses, $44.2 million net repayment of the Company's demand operating facility, net of a $24.4 million increase in accounts payable and accrued liabilities. On December 21, 2011, the Company entered into the new three year Committed Facility. In conjunction with the new Committed Facility, the Company repaid its demand operating facility and other outstanding long-term committed loan facilities balances on December 23, 2011. The balance outstanding on the Committed Facility at December 31, 2011 was $93.4 million and the amount due and payable under the Committed Facility in the twelve month period ended December 31, 2012, is $nil. As such, the entire amount outstanding under the Committed Facility is classified as long-term debt on the Consolidated Statement of Financial Position. By retiring the demand operating facility and replacing it with the Committed Facility, CES has managed to upsize its credit capacity, receive a three year term, and lower the interest costs associated with borrowing.

Total Current Assets
Total current assets of CES increased from $134.6 million at December 31, 2010 to $230.1 million at December 31, 2011. The increase is primarily due to an increase in business activity and the resulting increase in accounts receivable balances of $65.3 million, an increase of $28.1 million in inventory balances, and an increase of $2.7 million in prepaid expenses.

Total Long-Term Assets
Total long-term assets of CES increased by $1.5 million to $154.8 million at December 31, 2011, from $153.3 million at December 31, 2010. Of the $1.5 million increase during the year, notable changes were $13.0 million increase in property and equipment, offset by a $9.6 million decrease in future income tax assets relating to the use of the Company's non-capital tax loss pools, and a decrease of net $1.9 million in intangible assets and goodwill relating to the amortization of intangible assets and the translation of the US dollar-denominated intangible assets and goodwill balances.

Long-Term Financial Liabilities
CES had long-term debt totalling $94.1 million at December 31, 2011, compared to $3.6 million at December 31, 2010, for an increase of $90.5 million. At December 31, 2011, long-term financial liabilities were comprised of the following balances:

	As at	
$000's	**December 31, 2011**	December 31, 2010
Committed facility	**93,362**	-
Vehicle financing loans	**1,449**	1,633
Committed loan facilities	**-**	3,507
	94,811	5,140
Less current portion of long-term debt	**(747)**	(1,584)
Long-term debt	**94,064**	3,556

At December 31, 2011, the Company had finance lease liabilities of $5.1 million, net of the current portion of $2.4 million, for an increase of $1.0 million compared to December 31, 2010.

$000's	**December 31, 2011**	December 31, 2010
Finance lease obligations	**5,077**	2,906
Less current portion of finance lease obligations	**(2,362)**	(1,184)
Long-term finance lease obligations	**2,715**	1,722

During the twelve month period ended December 31, 2011, the Company made long-term scheduled debt and lease repayments totalling $6.4 million on its finance leases, vehicle debt, and credit facilities.

Shareholders' Equity
Shareholders' equity increased from $179.0 million at December 31, 2010 to $204.1 million at December 31, 2011. The year-to-date increase in shareholders' equity during the period is primarily attributable to the $41.7 million in net income of CES, cash proceeds of $3.6 million relating to the exercise of stock options, a $3.3 million increase to contributed surplus as a result of stock-based compensation expense, a $2.6 million decrease in accumulated other comprehensive loss relating to the translation of the Company's wholly owned US subsidiary, offset by $26.1 million of dividends declared by the Company during the year. As a result of the transition to IFRS, shareholder's equity increased by $8.0 million from $171.0 million under Canadian GAAP to $179.0 million under IFRS as at December 31, 2010. Refer to the 'Transition to IFRS' section below for additional information on the impact of the transition on shareholders' equity.

SEGMENTED RESULTS

In Q4 2011, CES operated in two geographical segments: Canada and the United States. Geographical information relating to the Company's activities is as follows:

	Revenue			
	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010	**2011**	2010
Canada	**65,437**	45,189	**209,013**	139,461
United States	**73,356**	49,279	**250,244**	109,655
Total	**138,793**	94,468	**459,257**	249,116

The year-over-year increase in the Company's US results is due to the inclusion of a full year of results from the Fluids Management Acquisition and higher overall activity levels as a result of organic growth achieved across all of the US divisions.

In Q4 2011, CES had three reportable operating segments as determined by management: Drilling Fluids, Trucking, and Environmental Services. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the WCSB and in the US through its wholly owned subsidiary, AES. The Trucking segment (EQUAL) is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment consists of Clear Environmental Services which provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta and in Alberta's oil sands. At this time, the results of the PureChem division are not separately disclosed and are included as part of the Drilling Fluids segment.

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

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

	Three Months Ended December 31, 2010				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	84,308	4,743	5,692	(275)	94,468
Cost of sales	60,927	3,689	3,846	(275)	68,187
Gross margin	23,381	1,054	1,846	-	26,281
Income before taxes	12,416	811	363	-	13,590
EBITDAC (1)	15,114	1,553	457	-	17,124

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

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

	Year Ended December 31, 2010				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	220,991	15,296	13,960	(1,131)	249,116
Cost of sales	161,247	11,505	9,089	(1,131)	180,710
Gross margin	59,744	3,791	4,871	-	68,406
Income before taxes	27,437	2,704	1,613	-	31,754
EBITDAC [1]	34,729	4,415	2,340	-	41,484

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

Drilling Fluids Segment
For the three months ended December 31, 2011, revenue from the Drilling Fluids segment totalled $128.3 million compared to $84.3 million for the three months ended December 31, 2010, representing an increase of $44.0 million or 52%. For the three months ended December 31, 2011, revenue per operating day for the Drilling Fluids Segment totalled $5,419 compared to $4,476 for the three months ended December 31, 2010. In 2011, revenue from the Drilling Fluids Segment totalled $423.2 million as compared to $221.0 million in 2010 representing an increase of $202.2 million or 92% on a year over year basis. In 2011, revenue per operating day for the Drilling Fluids Segment totalled $5,179 compared to $4,138 in 2010. Average revenue per operating day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order to be successfully drilled and cased. For additional details regarding the Company's market share and operating days for the year ended December 31, 2011, refer to "Overview of Financial and Operational Results" and "Results for the Period" sections above.

Trucking Segment
Revenue from the Trucking segment, gross of intercompany eliminations, was $5.6 million for the three month period ended December 31, 2011, as compared to $4.7 million during last year representing an increase of $0.9 million or 18%. In 2011, the Trucking segment had total revenue, gross of intercompany eliminations, of $19.4 million as compared to $15.3 million during 2010 representing an increase of $4.1 million or 27%. EQUAL's largest theatre of operations is SE Saskatchewan and Manitoba, where the wet weather conditions in the second quarter of 2011 severely curtailed trucking operations, affecting year-over-year results. Gross margin for the Trucking segment was $0.9 million or 16% of revenue for the three months ended December 31, 2011, as compared to $1.1 million or 22% of revenue during the prior year. In 2011, gross margin for the Trucking segment was $3.0 million or 15% of revenue as compared to $3.8 million or 25% of revenue during the prior year. Under IFRS, included in the Trucking Segment gross margin for the three and twelve months ended December 31, 2011, was depreciation on field property and equipment of $0.6 million and $2.1 million, respectively (2010 - $0.4 million and $1.6 million) and a gain on disposal of assets of $nil and $0.02 million, respectively (2010 – loss of $0.03 and $0.05). As a result of the transition to IFRS, gross margins are consequently lower. Under Canadian GAAP, for the three and twelve months ended December 31, 2011, the gross margin would have been 28% and 28% (2010 – 32% and 36% respectively).

Environmental Services Segment
Revenue from the Environmental Services segment was $5.1 million for the three month period ended December 31, 2011, as compared to $5.7 million generated for the same period of 2010 representing a decrease of $0.6 million or 10%. Clear's revenue in Q4 2011 was lower than expected as a result of warm weather in the oilsands region of Alberta that delayed several planned

projects from starting on time. In 2011, revenue for the Environmental Services totalled $17.4 million as compared to $14.0 million in 2010, representing an increase of $3.4 million or 25%. During the fourth quarter of 2011, gross margin from the Environmental Services segment was $1.8 million or 35% of revenue as compared to $1.8 million or 32% for the same period during 2010. In 2011, the gross margin from the Environmental Services Segment was $6.4 million or 37% of revenue as compared to $4.9 million or 35% in 2010. The Environmental Services segment has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling which has helped support revenue growth in 2011.

QUARTERLY FINANCIAL SUMMARY

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

($000's, except per share amounts)	Three Months Ended Dec 31, 2010	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010
Revenue	94,468	78,398	27,212	49,038
Gross margin [1]	26,281	21,695	5,707	14,723
Net income (loss) [4]	9,427	7,184	(770)	18,468
per share– basic [2][4]	*0.18*	*0.15*	*(0.02)*	*0.46*
per share– diluted [2][4]	*0.17*	*0.14*	*(0.02)*	*0.46*
EBITDAC [1][3][4]	17,124	13,453	1,377	9,530
per share– basic [2]	*0.32*	*0.29*	*0.03*	*0.24*
per share– diluted [2]	*0.31*	*0.26*	*0.03*	*0.23*
Funds flow from operations [1][3]	16,381	12,784	1,068	9,328
per share– basic [2]	*0.30*	*0.27*	*0.03*	*0.23*
per share– diluted [2]	*0.30*	*0.24*	*0.03*	*0.23*
Dividends declared	5,042	3,786	2,798	2,414
per share [2]	*0.10*	*0.08*	*0.07*	*0.06*
Shares Outstanding [2]				
End of period [2]	54,395,487	53,202,537	44,292,537	40,409,427
Weighted average – basic [2]	53,776,982	46,656,015	40,458,033	40,103,500
Weighted average – diluted [2]	54,504,694	52,651,985	40,458,033	40,557,063

Notes:

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

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

[3] Prior year balances recomputed to conform to current year financial statement presentation.

[4] Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the three months ended December 31, 2010 was $0.22 ($0.21 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.

Seasonality of Operations

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

SELECTED ANNUAL INFORMATION

CES' 2011 annual results reflect an increase in activity and revenue across all of CES' business segments over 2010. CES' dominant business line, the drilling fluids segment, experienced the most material gains over 2010 as a result of the inclusion of a full year of activity related to the Fluids Management acquisition, increased industry activity, and a continuing industry trend to drill more complex, deeper, and longer horizontal wells. CES capitalized on this trend in the WCSB through its leading market share position and in the US by organically expanding off its two acquired platforms (the Champion Drilling Fluids acquisition completed on November 30, 2009 and the Fluids Management Acquisition completed at the end of Q2 2010.

	Year Ended December 31,				
($000's, except per share amounts)	**2011**	% Change	2010	% Change	2009 (7)
Revenue	**459,257**	84%	249,116	178%	89,454
Gross margin (1)	**123,415**	80%	68,406	156%	26,712
Gross margin percentage of revenue (1)	**27%**		27%		30%
Income before taxes	**61,145**	93%	31,754	538%	4,975
per share – basic (3)	***1.12***	*60%*	*0.70*	*59%*	*0.44*
per share - diluted (3)	***1.08***	*59%*	*0.68*	*55%*	*0.44*
Net income	**41,695**	22%	34,309 (4)	357%	7,515
per share – basic (3)	***0.76***	*0%*	*0.76 (4)*	*13%*	*0.67*
per share - diluted (3)	***0.74***	*0%*	*0.74 (4)*	*12%*	*0.66*
EBITDAC (1) (2)	**76,320**	84%	41,481	317%	9,940
per share – basic (3)	***1.39***	*51%*	*0.92*	*217%*	*0.29*
per share - diluted (3)	***1.35***	*52%*	*0.89*	*207%*	*0.29*
Funds flow from operations (1) (2)	**68,663**	74%	39,561	318%	9,462
per share – basic (3)	***1.25***	*44%*	*0.87*	*211%*	*0.28*
per share - diluted (3)	***1.22***	*44%*	*0.85*	*204%*	*0.28*
Dividends declared	**26,118**	86%	14,040	30%	10,759
per share (3)	***0.48***	*55%*	*0.31*	*-3%*	*0.32*

	As At December 31,				
Financial Position ($000's)	**2011**	% Change	2010	% Change	2009 (7)
Net working capital (6)	**153,660**	350%	34,117	201%	11,347
Total assets	**385,351**	34%	287,870	120%	130,699
Long-term financial liabilities (5) (6)	**96,779**	1734%	5,278	106%	2,557
Shareholders' equity	**204,060**	14%	179,017	93%	92,534

Notes:

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

2 Prior year balances recomputed to conform to current year financial statement presentation.

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

4 Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the twelve months ended December 31, 2010 was $0.58 ($0.56 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.

5 Includes long-term portion of Committed Facility, vehicle financing, committed loans, and finance leases.

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

7 2009 comparative figures have not been restated to IFRS and are presented in accordance with Canadian GAAP and as such are not be comparable.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, the Company had net working capital of $153.7 million (December 31, 2010 - $34.1 million) representing an increase of $119.6 million.

On December 21, 2011, the Company entered into a new three year credit agreement with a Canadian commercial bank and its US based affiliate providing for the new Committed Facility, permitting it in aggregate to borrow up to $120.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. In conjunction with the Committed Facility, the Company repaid its demand operating facility (December 31, 2010 - $44,172) and outstanding long-term loan facilities balances on December 23, 2011.

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

At December 31, 2011, CES had a net draw of $93.4 million on its Committed Facility (December 31, 2010 - $nil). The maximum available draw on the $120.0 million Committed Facility at December 31, 2011, based on eligible accounts receivable, inventory, and certain capital asset balances, was $120.0 million (December 31, 2010 - $nil million). Amounts drawn on the Committed Facility incur interest at the bank's prime rate plus an applicable pricing margin ranging from 0.75% to 2.25% or at the Banker's Acceptance or LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Facility has standby fees ranging from 0.40% to 0.73%. The pricing margin ranges on the Committed Facility are based on a sliding scale of funded debt to EBITDA ratio.

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

- The quarterly debt to tangible net worth must not exceed 2.50 to 1.00. The ratio of debt to tangible net worth is calculated as total liabilities per the consolidated financial statements, less future income taxes, less any indebtedness that has been subordinated and postponed to the bank, and less any leases characterized as operating leases divided by the total of stated capital, contributed surplus, retained earnings, and any indebtedness that has been subordinated and postponed to the bank, less any intangible asset, and less any future income tax assets.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the consolidated financial statements divided by current liabilities per the consolidated financial statements excluding the current portion of long-term debt and capital lease obligations and any indebtedness that has been subordinated and postponed to the bank.
- The ratio of Funded Debt to Trailing EBITDA must not exceed 3.00 to 1.00, as calculated on a rolling four-quarter basis.
- The Company shall not make any dividend payments to shareholders upon the occurrence and during the continuance of or the making of which would give rise to or cause i) an Event of Default or ii) any event or condition which, with the giving of notice, lapse of time or upon declaration or determination being made (or any combination thereof), would constitute an Event of Default.

As at December 31, 2011, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

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

- Bank Leasing Facility of up to $5.0 million of which $3.9 million has been drawn on to date. As of December 31, 2011, the Company had an outstanding balance owing on these lease facilities of $2.7 million. The Company's floating interest rate leases are for terms ranging to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%, resulting in monthly payments of approximately $0.06 million. The Company's fixed interest rate leases are for terms of 48 months with interest on the Company's lease facilities at 4.94%, resulting in monthly payments of approximately $0.04 million.

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 8.71%, with a weighted average rate of approximately 5.86%, and have termination dates ranging from January 2012 to September 2015. At December 31, 2011, outstanding vehicle loans totalled $1.4 million as compared to $1.6 million at December 31, 2010.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2011:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	71,122	-	-	-	-	**71,122**
Dividends payable [2]	2,481	-	-	-	-	**2,481**
Long-term debt at fixed interest rates [3]	127	620	519	183	-	**1,449**
Long-term debt at floating interest rates [3]	-	-	-	93,362	-	**93,362**
Finance lease obligations at fixed interest rates [3]	71	359	452	805	-	**1,687**
Finance lease obligations at floating interest rates [3]	265	1,667	1,251	200	7	**3,390**
Office operating leases	326	1,397	1,000	1,194	-	**3,917**
Total	74,392	4,043	3,222	95,744	7	**177,408**

[1] Payments denominated in foreign currencies have been translated at the respective yearend exchange rate
[2] Dividends declared as of December 31, 2011
[3] Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

Generally, credit and equity markets have continued to improve over the last two years. However, in the event that CES' lender is unable to, or chooses not to fund, it would impair CES' ability to operate until alternative sources of financing were obtained as access to the Committed Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under its debt facilities.

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans and commitments. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. In the event that it is required, based on the market conditions at the time, it may be difficult to issue additional equity or increase credit capacity and the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions on CES. In addition, despite buoyant crude oil prices, natural gas prices continue to remain weak in terms of historical norms. Continued weak natural gas prices may negatively impact the demand for the Company's products and services in the future. As a result, there has been a greater emphasis on evaluating credit capacity, credit counterparties, and liquidity by CES to ensure its ability to be able to meet its ongoing commitments and obligations.

Cash Flows from Operating Activities
For the three months ended December 31, 2011, cash flow from operating activities was an outflow of $13.0 million compared to an inflow of $4.0 million during the prior year. Funds flow from operations (refer to "Non-GAAP Measures" for further detail), which takes into consideration changes in non-cash working capital, for the three months ended December 31, 2011, was a $22.7 million inflow as compared to a $16.4 million during 2010.

CES calculated distributable earnings based on funds flow from operations (refer to the "Non-GAAP Measures") and the payout ratio (refer to the "Non-GAAP Measures") based on the level of dividends declared as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010	**2011**	2010
Cash provided by (used in) operating activities	**(13,023)**	4,026	**(2,293)**	(15,529)
Adjust for:				
Change in non-cash operating working capital	**35,728**	12,355	**70,956**	55,090
Funds flow from operations [(1)]	**22,705**	16,381	**68,663**	39,561
Maintenance capital [(2)]	**(1,278)**	(860)	**(2,375)**	(2,346)
Distributable earnings [(1)]	**21,427**	15,521	66,288	37,215
Dividends declared	**7,156**	5,042	**26,118**	14,040
Payout ratio [(1)]	**33%**	32%	**39%**	38%

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

Distributable earnings were $21.4 million for the three months ended December 31, 2011, as compared to $15.5 million for the same period in 2010. For the year ended December 31, 2011, distributable earnings were $66.3 million versus $37.2 million for the same period in 2010. The year-over-year increases are representative of the higher overall activity during 2011 as compared to 2010. During the three months ended December 31, 2011, CES declared monthly dividends of $0.04 per share for October, and $0.045 per share for November and December for a total of $0.13 per share for the quarter

During the fourth quarter of 2011, the payout ratio (refer to the "Non-GAAP Measures") was 33% compared to 32% for the fourth quarter of 2010. For 2011, the payout ratio has averaged 39% as compared to 38% in 2010. Throughout the course of the year, the actual payout ratio varies with the seasonality of CES' funds flow from operations. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, dividends may be funded through CES' surplus cash reserves or by accessing CES' credit facilities.

Cash Flows from Investing Activities
For the three months ended December 31, 2011, net cash outflows from investing activities totalled $3.9 million compared to $5.4 million for the three months ended December 31, 2010.

For the three months ended December 31, 2011, $5.2 million was spent on property and equipment (net of $0.9 million in vehicle financing and leases). CES had $1.3 million of additions related to maintenance capital and $4.8 million of additions related to expansion capital gross of vehicle financing. Notable additions during the three month period ended December 31, 2011, included $2.3 million on the purchase of tanks; $1.4 million of warehouse, field, and processing equipment; $1.3 million of vehicles; $0.6 million of trucks and trailers; $0.2 million of warehouse construction costs; and other additions of $0.3 million.

For the year ended December 31, 2011, $17.0 million was spent on property and equipment (net of $2.9 million in vehicle financing lease), compared to $11.4 million in 2010 (net of $2.3 million in vehicle financing lease), representing an increase of $5.7 million. CES had $2.4 million of additions related to maintenance capital and $17.5 million of additions related to expansion capital gross of vehicle financing. Expansion Capital expenditures in 2011 were higher than historical norms as a result of a number of new capital projects undertaken during the year including the ongoing expansion and build out of the Company's PureChem facilities; the expansion to the tank farm and the build-out of an invert blending facility in Edson, AB; the establishment of new warehouse facilities and fluids storage facilities to service the Eagleford shale in Texas and the Utica shale in Ohio; and the Company's overall expansion of operations in both Canada and the United States.

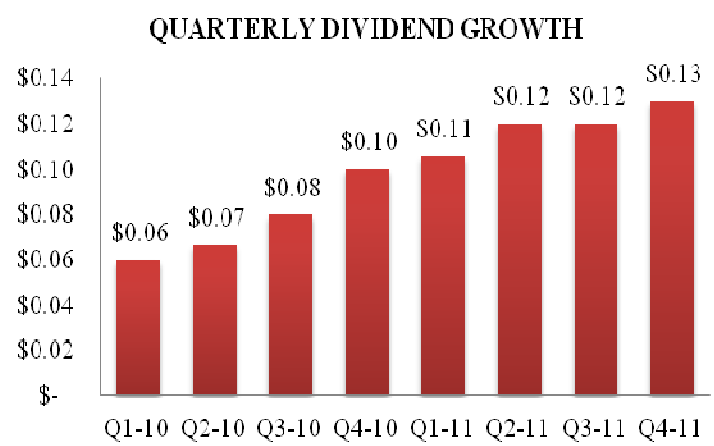
Details of investment made in property and equipment are as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2011**	2010	**2011**	2010
Expansion capital	**4,801**	6,379	**17,514**	11,366
Maintenance capital	**1,278**	860	**2,375**	2,346
Total investment in property and equipment	**6,079**	7,239	**19,889**	13,712
Vehicle financing and leases	**(929)**	(1,281)	**(2,915)**	(2,317)
Capital expenditures	**5,150**	5,958	**16,974**	11,395
Change in non-cash investing working capital	**(1,048)**	(256)	**(841)**	(393)
Cash used for investment in property and equipment	**4,102**	5,702	**16,133**	11,002

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

Cash Flows from Financing Activities
For the twelve month period ended December 31, 2011, cash flow from financing activities was a cash inflow of $22.3 million compared to $71.1 million during 2010. For the three months ended December 31, 2011, cash flow from financing activities totalled a cash inflow of $17.1 million compared to a cash inflow of $1.1 million during the comparative prior year period. For the three month period ended December 31, 2011, CES repaid $3.7 million of its long-term debt balances, paid dividends to shareholders totalling $6.9 million, drew an additional $26.0 million on its loan facilities, and received cash proceeds of $1.6 million relating to the exercise of stock options.

Dividend Policy
The below dividend discussion has been retroactively adjusted to give effect to the Stock Split. In 2011, CES increased its monthly dividend twice from a post-split amount of $0.033 cents per share to $0.045 cents per share, which is an increase of $0.012 cents per share or 36%. During the fourth quarter of 2011, CES declared monthly dividends of $0.04 per share for October, and $0.045 per share for November and December for a total of $0.13 per share for the quarter. This compares to $0.033 per share for a total of $0.10 per share for the comparable quarter in 2010. During the year ended December 31, 2011, CES declared total dividends per common share of $0.476 (December 31, 2010 – $0.307).



The Company declared dividends to holders of common shares for the year ended December 31, 2011, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share (1)	Total
January	Jan 31	Feb 15	$0.033	**1,814**
February	Feb 28	Mar 15	0.033	**1,814**
March	Mar 31	Apr 15	0.040	**2,179**
April	Apr 30	May 13	0.040	**2,189**
May	May 31	Jun 15	0.040	**2,192**
June	Jun 30	Jul 15	0.040	**2,192**
July	Jul 31	Aug 15	0.040	**2,194**
August	Aug 31	Sep 15	0.040	**2,194**
September	Sep 30	Oct 14	0.040	**2,194**
October	Oct 31	Nov 15	0.040	**2,197**
November	Nov 30	Dec 15	0.045	**2,478**
December	Dec 31	Jan 13	0.045	**2,481**
Total dividends declared during the period			$0.476	**26,118**

(1) Pursuant to the three-for-one split of CES' outstanding common shares, dividend payments per common share have been retroactively adjusted to reflect the stock split.

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

Subsequent to December 31, 2011, CES declared a monthly dividend of $0.045 per common share to shareholders of record at January 31, 2012, and February 29, 2012, for the months of January and February 2012.

Shareholders' Equity
On June 30, 2011, the Company's shareholders approved a three-for-one Stock Split of CES' outstanding common shares. The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 13, 2011. All share data and stock-based compensation plans presented herein have been retroactively adjusted, to give effect to the Stock Split. As of December 31, 2011, CES had a total of 55,138,435 common shares outstanding. As of the date of this MD&A, CES had a total of 55,321,261 common shares outstanding.

Stock-based Compensation
As at December 31, 2011, a total of 5,513,844 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan of which 2,101,212 remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan
At December 31, 2011, a total of 115,000 (December 31, 2010 – 229,050) options were outstanding at a weighted average exercise price of $2.43. As at December 31, 2011, a total of 47,500 options were exercisable at a weighted average price of $2.90. As of the date of this MD&A, there were a remaining 95,000 options outstanding. As a result of the Conversion effective January 1, 2010, all prior grants under the Option Plan will continue based on the terms and conditions of the original grant and all outstanding options issued under the Option Plan will be exercisable for new common shares of CES on a one for one basis. No new grants shall be made under the Option Plan.

b) Share Rights Incentive Plan ("SRIP")
At December 31, 2011, a total of 2,987,602 Share Rights were outstanding (December 31, 2010 – 3,511,500) at a weighted average exercise price of $6.20 (assuming all SRIP's are exercised at their respective original exercise price) of which 505,600 were exercisable. As of the date of this MD&A, an aggregate of 2,912,602 Share Rights remaining outstanding, of which 522,601 have vested.

c) Restricted Share Unit Plan ("RSU")
As approved by the shareholders of CES and effective June 30, 2011, the Company implemented the RSU Plan which provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSU's. The RSU's shall generally vest and be redeemed on the first anniversary from the date of grant, subject to other such vesting schedules as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested. At December 31, 2011, a total of 310,030 Restricted Share Units were outstanding (December 31, 2010 – nil) at a weighted average price of $10.84, none of which were vested. As of the date of this MD&A, an aggregate of 312,375 Restricted Share Units remain outstanding, none of which have vested.

Commitments / Contractual Obligations
At December 31, 2011, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Office and facility rent	1,723	1,000	490	478	226	**3,917**

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

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

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

In conjunction with the Fluids Management acquisition, the Company had US$5.0 million of additional deferred acquisition consideration payable in cash upon the Fluids Management division achieving an EBITDA target of US$9.5 million for the twelve month period post close. As this threshold was exceeded, the Company paid the deferred acquisition consideration of US$5.0 million on August 22, 2011.

TRANSITION TO IFRS

Effective January 1, 2011, International Financial Reporting Standards replaced Canada's current Generally Accepted Accounting Principles for all publicly accountable profit-oriented enterprises. The Company has adopted IFRS effective January 1, 2010, ("the Transition Date") and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

CES has prepared its Consolidated Financial Statements for the year ended December 31, 2011, under IFRS and has restated its consolidated financial statements for the year ended December 31, 2010, to comply with IFRS. The financial information contained within this MD&A that relates to periods prior to January 1, 2010, has been prepared under previous Canadian GAAP and has not been re-stated.

Consolidated Financial Statements as at and for the periods ended December 31, 2011 and 2010 have been prepared in accordance with IFRS 1, *First–time Adoption of International Financial Reporting Standards"("IFRS 1")* as issued by the International Accounting Standards Board.

We have completed all three IFRS project phases and have successfully integrated IFRS into our day-to-day operations. The adoption of IFRS has not changed the strategy of CES nor has it impacted our underlying business activities. Overall, our cash flows have not been impacted by the transition.

A summary of the significant accounting policies that CES has adopted in the transition from Canadian GAAP to IFRS is presented below.

IFRS 1 – First Time Adoption

In preparing these Consolidated Financial Statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. Based on management's analysis of the various accounting policy choices available, the IFRS 1 optional exemptions applied are described below:

(i) Business combinations

The Company has applied the business combinations exemption under IFRS 1 to not apply IFRS 3, *"Business Combinations",* retrospectively to past business combinations. Accordingly, Management has elected not to restate any business combinations that have occurred prior to the Transition Date.

(ii) Share-based payment transactions

The Company has elected to apply IFRS 2, *"Share-based Payments" ("IFRS 2")*, to equity instruments granted after November 7, 2002, which have not vested by the Transition Date. Accordingly, Management has elected not to restate the stock-based compensation expense for stock-based payments granted and vested prior to the Transition Date. Further, CES changed its accounting policy with respect to stock-based compensation, effective January 1, 2010, for new issuances under the Share Rights Incentive Plan to comply with the IFRS guidelines under IFRS 2. The resultant change required CES to account for an estimate of forfeitures at the time of grant and the associated compensation expense on a tranche by tranche basis.

(iii) Borrowing costs

IAS 23, *"Borrowing Costs"*, has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is before January 1, 2010. Accordingly, the Company has not capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was before January 1, 2010.

Impact on Historical Key Performance Indicators previously reported under Canadian GAAP

The following tables summarize the impact of IFRS on certain key performance metrics monitored by Management for the three and twelve months ended December 31, 2010, as prepared under Canadian GAAP and IFRS:

	Three Months Ended December 31, 2010		
	Canadian GAAP	IFRS	% Change (2)
Revenue	94,468	94,468	0%
Gross margin	27,465	26,281	(4%)
EBITDAC (1)	17,121	17,124	0%
Income before taxes	13,516	13,590	1%
Net income	11,664	9,427 (3)	(19%) (3)
Funds flow from operations (1)	16,348	16,381	0%

	Year Ended December 31, 2010		
	Canadian GAAP	IFRS	% Change (2)
Revenue	249,116	249,116	0%
Gross margin	72,173	68,406	(5%)
EBITDAC (1)	41,476	41,481	0%
Income before taxes	31,610	31,754 (3)	0% (3)
Net income	26,259	34,309	31%
Funds flow from operations (1)	39,498	39,561	0%

Notes:

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

[2] *The adoption of IFRS has not had a material impact on the key performance metrics monitored by Management with the exception of the treatment of the deferred tax credit under IFRS. Refer to discussion on 'Current and Deferred Income Taxes' above.*

[3] *Net income for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Refer to discussion on 'Current and Deferred Income Taxes' above.*

Impact of IFRS Adoption on Significant Accounting Policies and Estimates

The Company's IFRS accounting policies are provided in Note 3 to Consolidated Financial Statements for the year ended December 31, 2011. In addition, Note 4 to the Consolidated Financial Statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Statements of Financial Position as at January 1, 2010 and December 31, 2010 and the Consolidated Statements of Comprehensive Income for the year ended December 31, 2010.

The following tables summarize the adjustments made to the Company's statement of financial position and statement of comprehensive income:

	As at	
	December 31, 2010	January 1, 2010
Deficit as reported under Canadian GAAP	(21,444)	(33,663)
IFRS adjustments increase (decrease):		
Stock-based compensation	220	139
Leases	(3)	(1)
Deferred tax	7,906	-
Borrowing costs	66	-
	8,189	138
Deficit as reported under IFRS	(13,255)	(33,525)

	Three Months Ended December 31, 2010	Year Ended December 31, 2010
Net income as reported under Canadian GAAP	11,664	26,259
IFRS adjustments increase (decrease):		
Stock-based compensation	42	81
Leases	-	(3)
Deferred tax	(2,311)	7,906
Borrowing costs	32	66
	(2,237)	8,050
Net income as reported under IFRS	9,427	34,309

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's statement of financial position is set out below.

Stock-Based Compensation
Under Canadian GAAP, the Company recognized compensation expense associated with stock-based compensation plans with graded vesting features on a straight line basis over the vesting period. Under IFRS, the Company is required to treat each "tranche" of a stock-based compensation arrangement as a separate grant which results in the recognition of compensation expense on an accelerated basis as compared to Canadian GAAP. Further, IFRS requires that an estimate of the number of awards expected to vest be accounted for at the date of the grant. As a result, this decreased contributed surplus and decreased deficit by $0.139 million at the date of transition and decreased general and administration expenses by $0.042 million and $0.081 million for the three and twelve months ended December 31, 2010, with a corresponding decrease to contributed surplus for each of the respective periods.

Leases
In contrast to Canadian GAAP, IAS 17 does not contain numerical thresholds to determine the nature of any particular lease. As a result, certain leases of vehicles and trucks currently classified as operating leases were classified as finance leases under IFRS. The effect of this change in classification at the Transition Date is to increase property and equipment by $0.170 million (December 31, 2010 – $0.167 million) net of the related accumulated depreciation charge of $0.055 million (December 31, 2010 – $0.071 million) on the finance leases, and increase total finance lease obligations by $0.171 million (December 31, 2010 – $0.170 million). Lease expense on the operating leases under previous Canadian GAAP has been reversed.

Deferred Income Taxes & Deferred Tax Credit
The accounting treatment under IFRS of the deferred tax credit is the most significant change from Canadian GAAP upon adoption of IFRS. Under Canadian GAAP, a future income tax asset of $15.5 million and deferred tax credit of $12.7 million were recognized upon completion of the Conversion, effective January 1, 2010, with the difference of $2.8 million representing the consideration paid to Nevaro. During 2010, the deferred tax credit was amortized in proportion to the corresponding future income tax asset as the tax pools were utilized.

Under IFRS, a deferred tax asset shall be recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred tax asset recognized in the three months ended March 31, 2010, would have been initially measured at an amount equal to the consideration paid of $2.8 million and immediately following the transaction, CES would have re-measured the deferred tax asset to the extent that it is probable that tax losses will be utilized. This would result in an increase to the deferred tax asset with an equal and offsetting increase to deferred income tax recovery in the period. There would be no deferred tax credit recorded on acquisition of the deferred tax losses or subsequent to the completion of the transaction. As a result, the Company has made an adjustment to reverse any previously recognized deferred tax credit and to recognize any previously unrecognized deferred tax assets to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered. Any re-measurement has been recognized in income for the period. Accordingly, deferred income tax recovery has been decreased by $2.3 million for the three month period ended December 31, 2010, and increased by $7.9 million for the twelve month period ended December 31, 2010, with a corresponding elimination of the deferred tax credit upon transition.

Accordingly, under IFRS, the value of the deferred tax credit will be $nil, with the offset being recorded as a deferred income tax recovery during the twelve months ended December 31, 2010, thus resulting in an increase to net income of $7.9 million in the respective period. Subsequent to 2010, because the full benefit of the tax losses acquired with respect to the Conversion have now been recognized in 2010, the Company anticipates future period net income amounts to be correspondingly lower than they would otherwise have been under Canadian GAAP.

Borrowing Costs
Under Canadian GAAP, the Company expensed borrowing costs as incurred. At the Transition Date, the Company elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the Transition Date. Accordingly, finance costs have decreased by $0.032 million and $0.066 million, respectively, for the three and twelve month periods ended December 31, 2010, with a corresponding increase to property and equipment.

Impairment of Assets
Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying value of goodwill at the operating segment level compared to its fair value. If the carrying value of goodwill is greater than its corresponding fair value, an impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. Under IFRS, goodwill is tested for impairment at the cash generating unit ("CGU") level. If the carrying value of each CGU exceeds the greater of fair value less cost to sell or value in use, an impairment loss is recognized in the CGU. The Company's impairment analysis as of January 1, 2010, and December 31, 2010, indicated that the recoverable amount of the net assets for each cash generating unit exceeded its respective carrying value and, therefore, no indication of impairment existed.

Property and Equipment
In contrast to Canadian GAAP, IFRS permits items of property and equipment to be measured either at fair value or amortized cost. In this regard, CES expects to continue to reflect property and equipment at its historic amortized cost. Further, IFRS requires that significant asset parts (i.e. components) are recognized and depreciated separately. CES has assessed componentization under IFRS to be very similar to how the assets have been componentized by the Company under Canadian GAAP and the impact on CES' statement of financial position upon adoption of IFRS was not material.

Financial Statement Presentation & Disclosure:
Under IFRS, the Company presents its statement of comprehensive income under a functional disclosure approach resulting in certain expense classifications, namely depreciation and amortization expenses, and stock-based compensation expense, being presented as part of cost of sales and general and administrative expenses on the statement of comprehensive income.

Internal Controls
The conversion to IFRS does not have a significant impact on the current control environment, business processes, financial systems, or IT systems. There have been no significant changes in CES' internal control over financial reporting during the twelve month period ended December 31, 2011, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently evaluating the impact of adopting these standards.

- IFRS 9, "*Financial Instruments*" (effective for annual periods beginning on or after January 1, 2015), is intended to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk;

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

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

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

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

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

CORPORATE GOVERNANCE

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

Management of CES is responsible for establishing and maintaining internal controls over financial reporting for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and effectiveness of CES' internal control controls over financial reporting as at December 31, 2011. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2011.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

It should be noted that while the President and Chief Executive Officer and Chief Financial Officer believe that CES' disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

For information regarding the corporate governance policies and practices of CES, the Reader should refer to CES' 2011 Annual Report, CES' Annual Information Form dated March 8, 2012 in respect of the year ended December 31, 2011, and CES' Information Circular in respect to the June 30, 2011 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

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

Crude oil prices are fairly robust but continue to face volatility in the face of macro-economic forces. In addition, many operators in the WCSB have been challenged by crude oil pricing differentials versus world benchmarks such as Brent and West Texas Intermediate. Natural gas prices have remained weak since late 2008 and have declined to ten year lows in recent months. Despite the volatility of commodity prices, CES has experienced an increase in the demand for its services in 2010 and throughout 2011 as operators have expanded the use of horizontal drilling combined with multi-stage fracking completion techniques. In addition more capital and drilling activity has been migrating away from dry gas towards either oil or liquids rich natural gas targets over this period. However, North American rig counts are at a relative peak with high utilization rates and almost all equipment capable of drilling horizontal wells being fully deployed. Similar to previous industry cycles, the industry has a relative shortage of equipment and labour which has driven up the costs to operators to drill and complete wells. Higher drilling and completion costs to operators affect the economics of drilling wells, and heightens the risk that drilling activity could slow if either operators access to capital or the price of crude oil or natural gas falls, restricting their cash flow.

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

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

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

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

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, and reviewing and actively following up on older accounts. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if low commodity prices and volatile capital markets return, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk.

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

As a result of the US Acquisitions, CES' US footprint and size of operations has been significantly increased. US expansion provides CES with upside potential and reduces certain risks through diversification of operations. It also exposes the Company to additional specific risks including: integration risks of the acquired businesses; currency risk with added exposure to the US dollar; regulatory risks associated with environmental concerns with respect to drilling activity in Northeast US; and the future impact of increased regulatory requirements on drilling activity in the Gulf of Mexico are examples of specific US risks faced by the Company.

The volatility in the financial markets over the past three years has impacted the general availability of both credit and equity financing in the marketplace. The current sovereign debt issues ongoing in Europe and the generally weak economic forecasts for the North American and world economy result in continued uncertainty. It may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. In addition, should CES' senior lender be unable to, or choose not to, fund it would impair CES' ability to operate, as access to funds from its Committed Facility is critical to the effective execution of the business. CES has not experienced any funding issues under its debt facilities to date.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion. It should be noted that in Q4 2011 CES received a letter from the Canada Revenue Agency ("CRA") requesting information in order to review the Conversion and CES is in the process of providing information requested by the CRA.

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

OUTLOOK

Crude oil prices have rebounded off their lows of 2009 and, despite price fluctuations, appear to have stabilized in a profitable band for operators. Natural gas prices continue to remain weak, making the economics of drilling for dry natural gas very challenging. In the WCSB, operators have diverted significant capital to drilling for oil or liquids rich gas targets. In the US, this same trend is evident; however, areas such as the Marcellus shale continue to be active in dry gas drilling.

CES' 2011 annual results reflect an increase in activity and revenue across all of CES' business segments over 2010. CES' dominant business line, the drilling fluids segment, experienced the most material gains as a result of increased industry activity and a continuing industry trend to drill more complex, deeper and longer horizontal wells. CES' has benefited from this trend as these types of wells require more fluids in general, but also more technically advanced fluids in order to be successfully drilled and cased. The result is the drilling fluids portion of the typical well cost has increased, while the average well cost has also increased. Based on the reported well economics of the different North American play types and the reported drilling plans of operators, this trend looks to continue in 2012. However, weak natural gas prices may yet dampen the overall growth in the drilling market.

CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share in North America. As a larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times and costs, CES will leverage its superior customer service and its unique products like its patented Seal-AX™ and PolarBond™ lines along with its proprietary ABS40™, PureStar™ and Liquidrill™/Tarbreak products to demonstrate its superior performance. CES believes that its unique value proposition in this increasingly complex drilling environment makes it the premier independent drilling fluids provider in North American.

With the increase in activity in the WCSB, the EQUAL Transport division has also experienced significant growth. It is expected this business will continue to be economically attractive and may expand further as viable opportunities emerge.

The PureChem Services division manufactures and sells drilling fluid chemicals and production chemicals. PureChem began operations one year ago with the opening of its chemical blending facility in February 2011. PureChem is a complimentary business to both CES' drilling fluids business and EQUAL's production hauling businesses in Canada. CES' strategy is to continue to build out PureChem from its southeast Saskatchewan roots, through both organic growth off of our established North American platforms and through strategic fit acquisitions.

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

As drilling has become more complex, advanced down-hole technologies are becoming increasingly important in driving success for operators. CES will continue to invest in research and development to be a leader in technology advancements in the drilling fluids and production chemical markets. CES operates three separate lab facilities located in Carlyle, Saskatchewan; Calgary, Alberta; and Houston, Texas. CES also leverages third party partner relationships to drive innovation in the fluids business.

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

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

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

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

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

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 8, 2012

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 8, 2012

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Canadian Energy Services & Technology Corp. which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011, and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Energy Services & Technology Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011, and December 31, 2010 in accordance with International Financial Reporting Standards.

"Deloitte & Touche LLP"

Chartered Accountants

March 8, 2012
Calgary, Canada

Canadian Energy Services & Technology Corp.

Consolidated Statements of Financial Position
(stated in thousands of Canadian dollars, except per share amounts)

	As at		
	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets			
Accounts receivable	**166,007**	100,733	35,336
Financial derivative asset (note 21)	**-**	25	-
Inventory (note 6)	**59,376**	31,303	10,001
Prepaid expenses	**5,172**	2,513	389
	230,555	134,574	45,726
Property and equipment (note 7)	**43,543**	30,553	14,734
Intangible assets (note 8)	**14,425**	17,083	7,169
Deferred income tax asset (note 15)	**602**	10,212	1,949
Goodwill (note 8)	**96,226**	95,448	61,291
	385,351	287,870	130,869
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness (note 9)	**-**	44,172	8,762
Accounts payable and accrued liabilities	**71,122**	46,714	21,212
Financial derivative liability (note 21)	**183**	-	11
Earn-out payable	**-**	-	207
Deferred acquisition consideration (notes 5 and 20)	**-**	4,990	2,098
Dividends payable (note 19)	**2,481**	1,813	983
Current portion of finance lease obligation (note 11)	**2,362**	1,184	89
Current portion of long-term debt (note 10)	**747**	1,584	1,106
	76,895	100,457	34,468
Finance lease obligation (note 11)	**2,715**	1,722	82
Long-term debt (note 10)	**94,064**	3,556	2,557
Deferred income tax liability (note 15)	**7,617**	3,118	1,229
	181,291	108,853	38,336
Commitments (note 20)			
Shareholders' equity			
Common shares (note 16)	**200,412**	195,755	117,448
Subordinate convertible debenture	**-**	-	6,627
Contributed surplus (note 18)	**4,135**	1,900	1,983
Retained earnings (deficit)	**2,322**	(13,255)	(33,525)
Accumulated other comprehensive income (loss)	**(2,809)**	(5,383)	-
	204,060	179,017	92,533
	385,351	287,870	130,869

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer and Director

"D. Michael Stewart"
D. Michael Stewart
Director & Chairman, Audit Committee

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

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

	Year Ended December 31, 2011	Year Ended December 31, 2010
Revenue	**459,257**	249,116
Cost of sales (notes 6 and 12)	**335,842**	180,710
Gross margin	**123,415**	68,406
General and administrative expenses (note 13)	**58,693**	35,950
Operating profit	**64,722**	32,456
Finance costs (note 14)	**3,577**	702
Income before taxes	**61,145**	31,754
Current income tax expense (note 15)	**5,444**	315
Deferred income tax expense (recovery) (note 15)	**14,006**	(2,870)
Net income	**41,695**	34,309
Other comprehensive income (loss):		
Unrealized foreign exchange gain (loss) on translation of foreign operations	**2,574**	(5,383)
Comprehensive income	**44,269**	28,926
Net income per share (note 16)		
Basic	**0.76**	0.76
Diluted	**0.74**	0.74

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

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

	Year Ended December 31,	
	2011	2010
COMMON SHARES		
Balance, beginning of year	**195,755**	117,448
Stock options exercised (note 16)	**4,657**	7,146
Consideration for acquired business	**-**	21,468
Equity issue, net of share issue costs and tax	**-**	43,066
Conversion of subordinate convertible debenture	**-**	6,627
Balance, end of year	**200,412**	195,755
SUBORDINATE CONVERTIBLE DEBENTURE		
Balance, beginning of year	**-**	6,627
Conversion of subordinate convertible debenture	**-**	(6,627)
Balance, end of year	**-**	-
CONTRIBUTED SURPLUS		
Balance, beginning of year	**1,900**	1,983
Stock options exercised (note 18)	**(1,089)**	(1,793)
Stock-based compensation (notes 17 and 18)	**3,324**	1,710
Balance, end of year	**4,135**	1,900
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	**(5,383)**	-
Unrealized foreign exchange gain (loss) on translation of foreign operations	**2,574**	(5,383)
Balance, end of year	**(2,809)**	(5,383)
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year	**(13,255)**	(33,525)
Net income	**41,695**	34,309
Dividends declared (note 19)	**(26,118)**	(14,040)
Balance, end of year	**2,322**	(13,255)
	204,060	179,017

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

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

	Year Ended December 31, 2011	2010
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the year	**41,695**	34,309
Adjustments for:		
Depreciation and amortization	**9,450**	6,439
Stock-based compensation	**3,324**	1,710
Non-cash finance costs (income)	**384**	(14)
Deferred income tax expense (recovery)	**14,006**	(2,870)
Gain on disposal of assets	**(196)**	(13)
Change in non-cash working capital (note 23)	**(70,956)**	(55,090)
	(2,293)	(15,529)
FINANCING ACTIVITIES:		
Repayment of long-term debt and finance leases	**(6,354)**	(2,615)
Issuance of long-term debt and lease proceeds	**1,834**	4,147
Issuance of shares, net of issuance costs	**3,568**	47,715
Increase in bank operating facility	**48,738**	35,026
Shareholder dividends	**(25,448)**	(13,210)
	22,338	71,063
INVESTING ACTIVITIES:		
Investment in property and equipment	**(16,133)**	(11,002)
Investment in intangible assets	**(220)**	(58)
Deferred acquisition consideration	**(4,951)**	(2,245)
Conversion transaction (notes 1 and 15)	**-**	(2,800)
Acquisition of Fluids Management (note 5)	**-**	(40,563)
Proceeds on disposal of property and equipment	**1,005**	750
	(20,299)	(55,918)
Effect of exchange rate on bank indebtedness	**255**	384
CHANGE IN CASH	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**2,287**	1,684
Taxes paid	**5,214**	8

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

1. The Company

Canadian Energy Services & Technology Corp. ("CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 900, 715 – 5th Avenue SW, Calgary, Alberta, Canada T2P 2X6. CES was formerly Canadian Energy Services L.P. (the "Partnership"). Effective January 1, 2010, the Partnership completed a Plan of Arrangement ("Arrangement") with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a limited partnership to a corporation (the "Conversion"). The consolidated financial statements of the Company as at and for the years ended December 31, 2011 and 2010, comprise the Company and its subsidiaries (together referred to as the "Company" or "CES").

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

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

2. Basis of Presentation

a) Statement of compliance

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate International Financial Reporting Standards ("IFRS") and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. The Company adopted IFRS in accordance with IFRS 1, *"First-time Adoption of International Financial Reporting Standards"* ("IFRS 1") as discussed in Note 4. Subject to certain transition elections and exceptions, the Company has consistently applied the accounting policies used in preparation of its opening IFRS statement of financial position at January 1, 2010, throughout the 2010 and 2011 periods presented, as if these policies had always been in effect. An explanation of how the transition to IFRS has affected the reported financial position, shareholders' equity, comprehensive income, and cash flows of the Company is provided in Note 4.

These consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2012.

b) Basis of measurement

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

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

c) Functional and presentation currency

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

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

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

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

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

c) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets for which the commencement date is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

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

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

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

d) Leased assets

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

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

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

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

Customer relationships	6-7 years
Software	3 years
Patents	10 years
Other intangibles	10 years

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

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

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

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

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

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

h) Provisions

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

i) Revenue recognition

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

j) Stock-based compensation

The Company uses the fair value method to account for stock options granted to employees, officers, and directors of the Company for grants under the Company's Option Plan and Share Rights Incentive Plan. CES has adopted a Share Rights Incentive Plan ("SRIP") for any new option issuances effective January 1, 2010. Compensation expense for options granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant and the expense is recognized over the tranche's vesting period by increasing contributed surplus, with a corresponding increase to general and administrative expenses, based on the number of awards expected to vest. Forfeitures are estimated based on past experience and future expectations, and adjusted upon actual vesting.

k) Restricted share units

CES adopted a Restricted Share Unit plan ("RSU") effective June 30, 2011. RSUs are intended to be awarded to employees and officers of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense is based on the estimated fair value of the share-based compensation award at the date of grant, calculated using a five day volume weighted average share price. Compensation expense associated with the share-based compensation plan is recognized in income over the vesting period of the plan with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for RSUs at the date of grant based on the number of awards expected to vest. Forfeitures are estimated based on past experience and future expectations, and adjusted upon actual vesting.

l) Finance costs

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

m) Borrowing costs

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

n) Income taxes

Effective January 1, 2010, as a result of the Conversion, the Company converted from a limited partnership structure to a corporate structure. As a result, CES is subject to federal and provincial income taxes in Canada and to federal and state income taxes in the United States to the extent they are not sheltered by existing tax pools. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years.

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

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

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

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

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

o) Derivative financial instruments

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

p) Financial instruments

i) Non-derivative financial assets:

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

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

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

The Company has the following non-derivative financial assets:

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

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

u) Recent Accounting Pronouncements
Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently evaluating the impact of adopting these standards.

- IFRS 9, "*Financial Instruments*" (effective for annual periods beginning on or after January 1, 2015), is intended to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk;

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

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

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

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

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

4. Explanation of Transition to IFRS
The Company prepared its financial statements in accordance with Canadian GAAP for all periods up to and including December 31, 2010. These financial statements for the year ended December 31, 2011 are the Company's first annual financial statements that have been prepared in accordance with IFRS.

The Company has adopted IFRS effective January 1, 2010, ("the Transition Date") and has prepared its opening IFRS statement of financial position as at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 3. This note explains the impact of the Company's transition to IFRS.

a) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below:

(i) Hedge accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were recorded as non-hedging derivative financial instruments.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

b) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below:

(i) Business combinations

The Company has applied the business combinations exemption under IFRS 1 to not apply IFRS 3, *"Business Combinations"*, retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the Transition Date.

(ii) Stock-based payment transactions

The Company has elected to apply IFRS 2, *"Share-based Payments"* ("IFRS 2"), to equity instruments granted after November 7, 2002, which had not vested by the Transition Date. Accordingly, the Company has not adjusted stock compensation expense on options vested prior to the Transition Date.

(iii) Borrowing costs

IAS 23, *"Borrowing Costs"*, has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is before January 1, 2010. Accordingly, the Company has not capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was before January 1, 2010.

c) Reconciliation of equity and comprehensive income as reported under Canadian GAAP and IFRS

In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's consolidated statements of financial position, comprehensive income, and cash flows is set out in the following tables and the notes that accompany the tables.

(stated in thousands of Canadian dollars, except per share amounts)

Reconciliation of financial position:

		As at December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	**IFRS**
ASSETS				
Current assets				
Accounts receivable		100,733	-	**100,733**
Financial derivative asset		25	-	**25**
Inventory		31,303	-	**31,303**
Prepaid expenses		2,513	-	**2,513**
		134,574		**134,574**
Property and equipment	**c, e**	30,320	233	**30,553**
Intangible assets		17,083	-	**17,083**
Deferred income tax asset		10,212	-	**10,212**
Goodwill		95,448	-	**95,448**
		287,637	233	**287,870**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		44,172	-	**44,172**
Accounts payable and accrued liabilities		46,714	-	**46,714**
Deferred acquisition consideration		4,990	-	**4,990**
Dividends payable		1,813	-	**1,813**
Current portion of finance lease obligation	**c**	1,072	112	**1,184**
Current portion of long-term debt		1,584	-	**1,584**
		100,345	112	**100,457**
Finance lease obligation	**c**	1,664	58	**1,722**
Long-term debt		3,556	-	**3,556**
Deferred income tax liability		3,118	-	**3,118**
Deferred tax credit	**d**	7,906	(7,906)	**-**
		116,589	(7,736)	**108,853**
SHAREHOLDERS' EQUITY				
Common shares		195,755	-	**195,755**
Subordinate convertible debt		-	-	**-**
Contributed surplus	**b**	2,120	(220)	**1,900**
Deficit	**f**	(21,444)	8,189	**(13,255)**
Accumulated other comprehensive loss		(5,383)	-	**(5,383)**
Total shareholders' equity		171,048	7,969	**179,017**
Total liabilities and equity		287,637	233	**287,870**

(stated in thousands of Canadian dollars, except per share amounts)

		As at January 1, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	**IFRS**
ASSETS				
Current assets				
Accounts receivable		35,336	-	**35,336**
Financial derivative asset		-	-	**-**
Inventory		10,001	-	**10,001**
Prepaid expenses		389	-	**389**
		45,726	-	**45,726**
Property and equipment	**c, e**	14,564	170	**14,734**
Intangible assets		7,169	-	**7,169**
Deferred income tax asset		1,949	-	**1,949**
Goodwill		61,291	-	**61,291**
		130,699	170	**130,869**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		8,762	-	**8,762**
Accounts payable and accrued liabilities		21,212	-	**21,212**
Financial derivative liability		11	-	**11**
Earn-out payable		207	-	**207**
Deferred acquisition consideration		2,098	-	**2,098**
Dividends payable		983	-	**983**
Current portion of finance lease obligation	**c**	-	89	**89**
Current portion of long-term debt		1,106	-	**1,106**
		34,379	89	**34,468**
Finance lease obligation	**c**	-	82	**82**
Long-term debt		2,557	-	**2,557**
Deferred income tax liability		1,229	-	**1,229**
		38,165	171	**38,336**
SHAREHOLDERS' EQUITY				
Common shares		117,448	-	**117,448**
Subordinate convertible debt		6,627	-	**6,627**
Contributed surplus	**b**	2,122	(139)	**1,983**
Deficit	**f**	(33,663)	138	**(33,525)**
Accumulated other comprehensive loss		-	-	**-**
Total shareholders' equity		92,534	(1)	**92,533**
Total liabilities and equity		130,699	170	**130,869**

(stated in thousands of Canadian dollars, except per share amounts)

Reconciliation of comprehensive income:

		Year ended December 31, 2010		
	Note	Canadian GAAP	Effect of transition IFRSs	**IFRS**
Revenue		249,116	-	**249,116**
Cost of sales	**a, b, c**	180,707	3	**180,710**
Gross margin		68,409	(3)	**68,406**
General and administrative expenses	**a, b**	36,031	(81)	**35,950**
Operating profit		32,378	78	**32,456**
Finance costs	**a, e**	768	(66)	**702**
Income before taxes		31,610	144	**31,754**
Current income tax expense		315	-	**315**
Deferred income tax expense (recovery)	**d**	5,036	(7,906)	**(2,870)**
Net income		26,259	8,050	**34,309**
Other comprehensive income:				
Unrealized loss on translation of foreign operations		(5,383)	-	**(5,383)**
Comprehensive income		20,876	-	**28,926**

Notes to the Reconciliations

a) Presentation differences

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported income or total equity. Some line items are described differently under IFRS as compared to Canadian GAAP and certain line items have been added or removed in accordance with IAS 1, Presentation of Financial Statements. These line items are as follows (with Canadian GAAP descriptions in brackets):

- General and administrative expenses (Selling, general, and administrative expenses); and
- Finance costs (consists of 'Financial derivative (gain)/loss' and 'Foreign exchange (gain)/loss', and 'Interest expense').

Certain items of expense have been reclassified into other line items under IFRS at the Transition Date. Reclassifications have been recorded for the following line items:

- Stock-based compensation and Amortization have been proportionately allocated by the function of the expense to the accounts of 'Cost of sales' and 'General and administrative expenses';
- Loss on disposal of assets has been reclassified based on the function of the expense to 'Cost of sales'; and
- Foreign exchange (gain)/loss, Financial derivative (gain)/loss, and Interest expense have been reclassified to 'Finance Costs'.

b) Stock-based compensation

Under Canadian GAAP, the Company recognized compensation expense associated with stock-based compensation plans with graded vesting features on a straight line basis over the vesting period. Under IFRS, the Company is required to treat each "tranche" of a stock-based compensation arrangement as a separate grant which results in the recognition of compensation expense on an accelerated basis as compared to Canadian GAAP. Further, IFRS requires that an estimate of the number of awards expected to vest be accounted for at the date of the grant. As a result, this decreased contributed surplus and decreased deficit by $139 at the Transition Date and decreased general and administration expenses by $81 for the year ended December 31, 2010, with a corresponding decrease to contributed surplus for each of the respective periods.

(stated in thousands of Canadian dollars, except per share amounts)

c) Leases
Under Canadian GAAP, certain leases of vehicles and trucks were classified as operating leases. Under IFRS, the vehicles and trucks are classified as finance leases because the gains and losses from the fluctuation in the fair value of the residual accrue to the Company. The effect of this change in classification at the Transition Date is to increase property and equipment by $170 (December 31, 2010 – $167) net of the related accumulated depreciation of $55 (December 31, 2010 – $71) on the finance leases, and increase total finance lease obligations by $171 (December 31, 2010 – $170). Additional lease expense of $1 at the Transition date and $3 for the year ended December 31, 2010, has been recorded.

d) Deferred tax credit
Under Canadian GAAP, a future income tax asset and deferred tax credit were recognized upon the Conversion. Under IFRS, a deferred tax asset is recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred tax asset recognized in the three months ended March 31, 2010, would have been initially measured at an amount equal to the consideration paid of $2,800 and immediately following the transaction, CES would have re-measured the deferred tax asset to the extent that it is probable that tax losses will be utilized. This would result in an increase to the deferred tax asset with an equal and offsetting increase to deferred income tax recovery in the period. There would be no deferred tax credit recorded on acquisition of the deferred tax losses or subsequent to the completion of the transaction. As a result, upon transition to IFRS, the Company has made an adjustment to reverse any previously recognized deferred tax credit and to recognize any previously unrecognized deferred tax assets to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered. Any re-measurement has been recognized in income for the period. Accordingly, deferred income tax expense has decreased by $7,906 for the year ended December 31, 2010, with a corresponding elimination of the deferred tax credit.

e) Borrowing costs
Under Canadian GAAP, the Company expensed borrowing costs as incurred. At the Transition Date, the Company elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the Transition Date. Accordingly, finance costs have decreased by $66 for the year ended December 31, 2010, with a corresponding increase in property and equipment.

f) Summary of adjustments to deficit
The following is a summary of transition adjustments to the Company's deficit from Canadian GAAP to IFRS:

		As at	
		December 31, 2010	January 1, 2010
Deficit as reported under Canadian GAAP		(21,444)	(33,663)
IFRS adjustments increase (decrease):			
Stock-based compensation	**b**	220	139
Leases	**c**	(3)	(1)
Deferred tax	**d**	7,906	-
Borrowing costs	**e**	66	-
		8,189	138
Deficit as reported under IFRS		(13,255)	(33,525)

g) Material adjustments to the consolidated statement of cash flows for 2010
Consistent with the Company's accounting policy choice under IAS 7, there are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

5. Business Acquisition
On June 30, 2010, in order to expand the Company's US operations, the Company closed the acquisition of selected drilling fluids business assets of Fluids Management II, Ltd., Brookshire Investment Trust, and Stikley Enterprises, Inc. (collectively "Fluids Management"), a privately-held drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the United States. The effective date of the acquisition was June 21, 2010. The aggregate purchase price was $67,271, consisting of $40,563 (US$38,705) in cash, $21,468 in share consideration through the issuance of 1,289,370 common shares of the Company, and $5,240 (US$5,000) in additional deferred acquisition consideration. The US$5,000 is contingent based as an earn-out and was payable upon the Fluids Management division achieving an EBITDA target of US$9,500 for the twelve month period post close. The US$5,000 was subsequently paid on August 22, 2011. In addition, at June 30, 2010, the Company had entered into an agreement to purchase selected real estate assets for total consideration of

US$1,795 subject to the completion of satisfactory environmental assessments which was subsequently completed in the year ended December 31, 2010. The purchase price allocation was based upon the respective closing date values as of June 30, 2010. The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	13,686
Property and equipment	7,814
Intangible assets (note 8)	12,692
Goodwill (note 8)	36,388
Total assets	**70,580**
Current liabilities	(2,888)
Current portion of capital lease obligation	(352)
Long-term portion of capital lease obligation	(69)
Total liabilities	**(3,309)**
Net assets acquired	**67,271**

Consideration given $000's	
Cash	40,563
Share consideration	21,468
Deferred acquisition consideration	5,240
Total consideration	**67,271**

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

In conjunction with this transaction, the Company recorded $210 of applicable transaction costs to general and administrative expenses on the Consolidated Statements of Comprehensive Income.

6. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2011 was $232,083 (2010 – $123,570). During the year ended December 31, 2011 of $nil of inventory valuation write-downs and $nil of inventory valuation write-down reversals were recorded (2010 – $nil and $nil, respectively).

7. Property and Equipment

Property and equipment are comprised of the following balances:

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

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

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

$000's	Balance January 1, 2010	Acquisitions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2010
Cost:						
Trucks and trailers	5,680	345	1,192	(284)	(19)	6,914
Buildings	4,117	-	5,445	-	164	9,726
Tanks	902	3,728	1,055	(39)	(180)	5,466
Vehicles	3,950	484	3,314	(1,312)	(227)	6,209
Field equipment	2,182	1,024	1,167	(63)	(74)	4,236
Computer equipment	1,177	129	205	(13)	(428)	1,070
Processing equipment	-	1,456	425	-	(70)	1,811
Land	989	-	642	-	(15)	1,616
Furniture and fixtures	301	326	88	-	(212)	503
Leasehold improvements	136	319	148	-	(21)	582
	19,434	7,814	13,681	(1,711)	(1,085)	38,133

$000's	Balance January 1, 2010	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2010
Depreciation:					
Trucks and trailers	1,242	1,156	(125)	(2)	2,271
Buildings	355	305	-	(9)	651
Tanks	99	174	(1)	(1)	271
Vehicles	1,397	1,327	(777)	(57)	1,890
Field equipment	865	631	(30)	(14)	1,452
Computer equipment	580	281	(12)	(241)	608
Processing equipment	-	75	-	(1)	74
Land	-	-	-	-	-
Furniture and fixtures	133	80	-	(2)	211
Leasehold improvements	29	125	-	(2)	152
	4,700	4,154	(945)	(329)	7,580

$000's	Balance January 1, 2010	Balance December 31, 2011
Carrying amounts:		
Trucks and trailers	4,438	4,643
Buildings	3,762	9,075
Tanks	803	5,195
Vehicles	2,553	4,319
Field equipment	1,317	2,784
Computer equipment	597	462
Processing equipment	-	1,737
Land	989	1,616
Furniture and fixtures	168	292
Leasehold improvements	107	430
	14,734	30,553

Borrowing costs
For the year ended December 31, 2011, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $40 (2010 – $66).

8. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

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

$000's	Customer relationships	Software	Patents	Other intangibles	Total intangibles	Goodwill
Cost:						
Balance at January 1, 2010	8,118	-	218	-	8,336	61,291
Acquisitions through business combinations	11,214	430	-	1,048	12,692	36,388
Additions	-	364	58	-	422	-
Effect of movements in exchange rates	(733)	(20)	-	(48)	(801)	(2,231)
Balance at December 31, 2010	18,599	774	276	1,000	20,649	95,448
Amortization:						
Balance at January 1, 2010	1,130	-	37	-	1,167	-
Amortization for the year	2,036	327	29	51	2,443	-
Effect of movements in exchange rates	(43)	(1)	-	-	(44)	-
Balance at December 31, 2010	3,123	326	66	51	3,566	-
Carrying amount at December 31, 2010	15,476	448	210	949	17,083	95,448

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

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

	As at		
$000's	**December 31, 2011**	December 31, 2010	January 1, 2010
Drilling Fluids Division (Canada)	**41,966**	41,966	41,966
Drilling Fluids Division (US) [1]	**46,313**	45,535	11,378
Environmental Services Division (Clear)	**7,947**	7,947	7,947
	96,226	95,448	61,291

[1] Amounts denominated in foreign currencies have been translated at the respective yearend exchange rates

The Company's impairment analysis as of December 31, 2011, indicated that the recoverable amount of the net assets for each CGU exceeded its respective carrying value and, therefore, no indication of impairment exists. The recoverable amount of the CGU's was based on their value in use.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates for the purpose of the impairment analysis using pre-tax rates that reflect the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk free rate of return adjusted for the Company's estimated equity market risk premium and the Company's estimated cost of debt. An estimated pre-tax discount rate of 11% was used as at December 31, 2011 (December 31, 2010 – 13%). The growth rates represent management's current assessment of future trends in the service industry and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for the upcoming year and subsequent five year period based on estimated variable growth rates of 5% to 7.5% for the first five years and 5% for years thereafter. Future cash flows are based on various assumptions and judgments including actual performance of the business, management's estimates of future performance, and indicators of future service industry activity levels. It is unlikely that a change in a key assumption in the value-in-use calculation would cause the CGU's carrying amounts to exceed its recoverable amounts.

9. Bank Indebtedness

On December 21, 2011, the Company entered into a new three year committed credit agreement with a commercial bank providing for the New Senior Credit Committed Facility (the "Facility"), permitting it to borrow up to $120,000, as described in Note 10. In conjunction with the new Facility, the Company repaid its demand operating facility and outstanding long-term committed loan facilities balances on December 23, 2011. At December 31, 2010, the Company had drawn $44,172 on its demand operating facility (January 1, 2010 – $8,762).

10. Long-Term Debt

On December 21, 2011, the Company entered into a new three year committed credit agreement with a commercial bank providing for the New Senior Credit Facility (the "Facility"), permitting it to borrow up to $120,000, subject to the value of certain accounts receivable, inventory, and capital assets. The Facility has a three year term and may be extended by one year upon the agreement of the lender and the Company.

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

As of December 31, 2011, based on eligible accounts receivable, inventory, and capital asset balances, the maximum available draw on the Facility was $120,000. At December 31, 2011, the Company had drawn $93,362 on the Facility (December 2010 – $nil; January 1, 2010 – $nil), net of capitalized transaction cost of $495 (December 31, 2010 – $nil; January 1, 2010 – $nil). Transactions costs attributable to the Facility are recorded as part of the Facility and amortized over the remaining term of the Facility. Amounts drawn on the Facility incur interest at the bank's prime rate plus an applicable pricing margin ranging from 0.75% to 2.25% or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Facility has standby fee ranging from 0.40% to 0.73%. The pricing margin ranges on the Facility are based on a sliding scale funded debt to EBITDA ratio. EBITDA is defined within the Facility as net income before interest, taxes, depreciation and amortization, loss on disposal of assets, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, and non-cash stock-based compensation.

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

	As at		
$000's	**December 31, 2011**	December 31, 2010	January 1, 2010
Committed facility	**93,362**	-	-
Vehicle financing loans	**1,449**	1,633	1,464
Committed loan facilities	**-**	3,507	2,199
	94,811	5,140	3,663
Less current portion of long-term debt	**(747)**	(1,584)	(1,106)
Long-term debt	**94,064**	3,556	2,557

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 8.71%, with a weighted average rate of approximately 5.86%, and have termination dates ranging from January 2012 to September 2015.

For the year ended December 31, 2011, the Company paid $449 (2010 – $385), in interest expense related to its long-term debt and lease balances.

Scheduled principal payments at December 31, 2011, are as follows:

$000's	
2012	**747**
2013	**519**
2014	**93,528**
2015	**17**
2016	**-**
Total	**94,811**

11. Finance Leases

On September 30, 2011, the Company completed a sale and leaseback transaction on specified assets for proceeds equal to the net book value of the respective assets in the amount of $1,834. The leases are for a period of 48 months, terminating in September 2015, and have a fixed interest rate of 4.94%.

The Company leases equipment and vehicles under a number of finance lease agreements for which the underlying leased assets secure the lease obligations. The Company's equipment leases are for terms ranging from March 2013 to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%. The Company's vehicle leases are for terms ranging from June 2012 through April 2017 with interest rates of up to 9.07% and a weighted average interest rate of approximately 6.34%. The carrying value of assets under finance leases at December 31, 2011 totaled $5,732 (December 31, 2010 – $2,823; January 1, 2010 – $170). Amortization expense relating to assets under finance leases for the year ended December 31, 2011, totaled $1,105 (2010 – $807).

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

$000's	**December 31, 2011**	December 31, 2010	Janaury 1, 2010
Finance lease obligations	**5,077**	2,906	171
Less current portion of finance lease obligations	**(2,362)**	(1,184)	(89)
Long-term finance lease obligations	**2,715**	1,722	82

12. Cost of Sales

Included in cost of sales for the year ended December 31, 2011 is depreciation charged on property and equipment of $5,923 (2010 – $3,777), and employee compensation and benefits of $31,369 (2010 – $20,183).

13. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2011 is depreciation and amortization charged on property and equipment and intangible assets of $3,527 (2010 – $2,662), stock-based compensation of $3,324 (2010 – $1,710), and employee compensation and benefits of $29,109 (2010 – $18,873).

14. Finance Costs

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

	Year Ended December 31,	
$000's	**2011**	2010
Foreign exchange loss (gain)	**712**	(894)
Financial derivative loss (gain)	**96**	(1)
Interest on debt	**2,809**	1,663
Less: capitalized interest (note 7)	**(40)**	(66)
Finance costs	**3,577**	702

15. Income Taxes

As outlined in note 1, effective January 1, 2010, as a result of the Conversion, the Company converted from a limited partnership structure to a corporate structure. As a result, CES is subject to federal and provincial/state income taxes in Canada and the United States to the extent that they are not sheltered by existing tax pools.

Under the Arrangement, Nevaro transferred certain assets and all of its liabilities to a new corporation (“New Nevaro”), leaving certain tax attributes related to Nevaro’s previous operations. Nevaro then acquired all of the Class A Units of the Partnership and all of the shares of Canadian Energy Services Inc., and, in exchange, the previous holders of Class A Units of the Partnership received one common share of Nevaro for each Class A Unit of the Partnership they held. Nevaro then changed its name to “Canadian Energy Services & Technology Corp.” which became the parent entity of CES on a go forward basis with no changes to the underlying business operations of CES. Under the Arrangement, New Nevaro received consideration from the Company in the aggregate amount of $2,800. CES incurred $586 in costs related to the Arrangement which were expensed during the year ended December 31, 2009.

For the year ended December 31, 2009, the income earned directly by the Partnership was taxed in the hands of the partners. Effective January 1, 2010, as a result of the Conversion, the Partnership converted from a limited partnership structure to a corporate structure. As a result, for the year ended December 31, 2010 and all subsequent years, the Canadian operations are subject to federal and provincial income taxes in Canada to the extent they are not sheltered by existing tax pools and accordingly deferred income taxes have been recorded relating to temporary differences. AES, as it has been since its establishment, will continue to be subject to federal and state income taxes in the United States to the extent its income is not sheltered by existing tax pools.

As outlined in note 4, previously, under Canadian GAAP, a future income tax asset and deferred tax credit were recognized upon the Conversion. Under IFRS, a deferred tax asset is recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred income tax asset recognized would have been initially measured at an amount equal to the consideration paid of $2,800 and immediately following the transaction, CES would have re-measured the deferred income tax asset to the extent that it is probable that tax losses will be utilized for a total deferred income tax asset of $15,482. For the year ended December 31, 2011, $9,610 (2010 - $5,270) of this deferred income tax asset was realized.

The provision for income taxes differs from the result that would have been obtained by applying the combined Canadian statutory federal and provisional income tax rates for the following reasons:

	Year Ended December 31,	
$000's	**2011**	2010
Income before taxes	**61,145**	31,754
Income tax rate	**26.95%**	28.53%
Expected income tax expense	**16,479**	9,059
Effects on taxes resulting from		
Conversion transaction	**-**	(12,680)
Non-deductible expenses	**348**	709
Change in unrecognized temporary differences	**-**	165
Unrealized foreign exchange (gain) loss	**(112)**	42
Reduction of future income tax due to rate changes	**(119)**	(482)
Other	**31**	(10)
Income distributed to partners	**-**	-
Adjustment to future income tax liability for accelerated recognition	**-**	-
Income tax in jurisdictions with different tax rates	**2,755**	642
Unrecognized tax benefit	**68**	-
Income tax expense	**19,450**	(2,555)
Current income tax expense	**5,444**	315
Deferred income tax expense	**14,006**	(2,870)

The statutory rate consists of the combined Canadian statutory tax rate for the Company for the year ended December 31, 2011 and 2010. The general combined Canadian Federal/ Provincial tax rate lowered to 26.95% in 2011 from 28.53% in 2010 due primarily to the Canadian Federal rate dropping from 18% in 2010 to 16.5% in 2011.

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

	As at		
$000's	**December 31, 2011**	December 31, 2010	January 1, 2010
Property and equipment	**4,262**	1,409	542
Goodwill and other intangible assets	**3,645**	2,442	1,465
Financing costs and other tax credits	**(625)**	(800)	(588)
Non-capital losses	**(366)**	(10,145)	(2,192)
Capital losses	**(4,743)**	(4,943)	-
Other	**-**	-	53
Unrecognized tax benefit, net	**4,842**	4,943	-
Total, net future income tax (asset) liability	**7,015**	(7,094)	(720)
Deferred income tax asset	**602**	10,212	1,949
Deferred income tax liability	**7,617**	3,118	1,229

As at December 31, 2011, the Company had $752 of Canadian federal non-capital losses remaining which will expire in 2026 (December 31, 2010 - $37,148) and had capital loss carry forward pools of $18,636 (2010 - $18,636). Due to uncertainty over realization of the respective pools, no deferred income tax asset has been recognized in relation to the capital loss carry forward pools and a provision has been taken in full.

16. Share Capital

a) Authorized

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

b) Issued and outstanding

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
Common Shares *($000's except shares)*	**Number of Shares [1]**	**Amount**	Number of Shares [1]	Amount
Balance, beginning of year	**54,395,487**	**195,755**	37,252,719	117,448
Equity issue, net of share issue costs and tax	**-**	**-**	8,715,000	43,066
Consideration for acquired business	**-**	**-**	3,868,110	21,468
Issued on conversion of Debenture	**-**	**-**	2,375,328	6,627
Issued pursuant to Option Plan & SRIP	**742,948**	**3,568**	1,795,449	5,353
Contributed surplus related to Option Plan & SRIP exercise	**-**	**1,089**	-	1,793
Issued pursuant to Distribution Rights Plan	**-**	**-**	388,881	-
Balance, end of year	**55,138,435**	**200,412**	54,395,487	195,755

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

c) Net income per share

In calculating the basic and diluted net income per share for the year ended December 31, 2011 and 2010, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
$000's, except share and per share amounts	**2011**	2010
Net income	**41,695**	34,309
Weighted average number of shares outstanding:		
Basic shares outstanding [1]	**54,745,391**	45,289,950
Effect of dilutive securities [1]	**1,737,978**	1,337,096
Diluted shares outstanding	**56,483,369**	46,627,046
Net income per share - basic	**$0.76**	$0.76
Net income per share - diluted	**$0.74**	$0.74

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

Excluded from the calculation of dilutive securities for the year ended December 31, 2011, are 27,000 Share Rights (2010 – nil).

17. Stock-Based Compensation

Pursuant to the Stock Split, for each Option and Share Right outstanding, an additional two Options or Share Rights were issued at an exercise price reduced to one-third of the original exercise price. The stock-based compensation plans have been retroactively adjusted to give effect to the stock split as reflected in the information below.

As at December 31, 2011, a total of 5,513,844 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan, of which 2,101,212 common shares remained available for grant. For the year ended December 31, 2011, stock compensation expense of $3,324 (2010 – $1,710) was recorded relating to the Company's Option, Share Rights, and Restricted Share Unit stock-based compensation plans.

(stated in thousands of Canadian dollars, except per share amounts)

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

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Options (1)	**Average Exercise Price (1)**	Options (1)	Average Exercise Price (1)
Balance, beginning of year	**229,050**	**$2.47**	2,047,500	$2.92
Granted during the year	**-**	**-**	-	-
Exercised during the year	**(114,050)**	**2.51**	(1,795,449)	2.98
Forfeited during the year	**-**	**-**	(23,001)	2.42
Balance, end of year	**115,000**	**$2.43**	229,050	$2.47
Exercisable options, end of year	**47,500**	**$2.90**	28,299	$3.09

(1) Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011, the number of options outstanding and average exercise prices have been retroactively adjusted to effect the stock split.

b) Share Rights Incentive Plan ("SRIP")

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

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Share Rights (1)	**Average Exercise Price (1)**	Share Rights (1)	Average Exercise Price (1)
Balance, beginning of year	**3,511,500**	**$5.65**	-	$ -
Granted during the year	**273,000**	**10.59**	3,678,000	5.60
Exercised during the year	**(628,898)**	**5.22**	-	-
Forfeited during the year	**(168,000)**	**5.16**	(166,500)	4.72
Balance, end of year	**2,987,602**	**$6.20**	3,511,500	$5.65
Exercisable options, end of year	**505,600**	**$6.11**	-	$ -

(1) Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011, the number of share rights outstanding and average exercise prices have been retroactively adjusted to effect the stock split.

The compensation costs for Share Rights granted during the year ended December 31, 2011, were calculated using a Black-Scholes option pricing model using the following assumptions:

	Year Ended December 31, 2011
Risk-free interest rate	**0.99% - 2.14%**
Expected average life of Share Rights	**3.25 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**8.56 - 9.00%**
Dividend yield	**3.99% - 4.65%**
Expected volatility	**52.61% - 54.99%**
Weighted average fair value per Share Right	**$3.26**

The following table summarizes information about the outstanding grants under the Company's Share Rights Incentive Plan and Option Plan as at December 31, 2011:

	Options & Share Rights Outstanding			Options & Share Rights Exercisable	
Range of exercise prices	Options and Share Rights [1]	Weighted average exercise price [1]	Weighted average term remaining in years	Options and Share Rights [1]	Weighted average exercise price [1]
$1.84 - $3.10	75,500	$2.08	2.15	8,000	$1.84
$3.11 - $4.23	39,500	3.11	1.88	39,500	3.11
$4.24 - $5.25	773,502	4.77	3.26	13,500	4.85
$5.26 - $5.91	54,000	5.66	3.53	18,000	5.66
$5.92 - $8.25	1,887,100	6.17	3.76	474,100	6.17
$8.26 - $10.74	216,000	10.33	4.45	-	-
$10.75 - $12.03	57,000	11.57	4.54	-	-
	3,102,602	$6.06	3.63	553,100	$5.84

[1] Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011, the number of options and share rights outstanding, as well as the weighted average exercise prices, have been retroactively adjusted to effect the stock split.

c) Restricted Share Unit Plan ("RSU")
Effective June 30, 2011, the Company implemented the RSU Plan which provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSU's. The RSU's shall generally vest and be redeemed on the first anniversary from the date of grant, subject to other such vesting schedules as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested.

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

	Year Ended December 31, 2011		Year Ended December 31, 2010	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**-**	**$ -**	-	$ -
Granted during the year	**307,500**	**10.84**	-	-
Dividends reinvested during the year	**2,530**	**10.83**	-	-
Balance, end of year	**310,030**	**$10.84**	-	$ -

The fair value of the Restricted Share Units granted, as of the date of grant, during the year ended December 31, 2011, was $10.84 per RSU (2010 – $nil). The compensation costs for Restricted Shares granted during the year ended December 31, 2011, is based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded is reduced by an estimated forfeiture rate ranging from 7.13% to 9.18% per year at the date of grant. As at December 31, 2011, the Restricted Shares have a remaining weighted average term of 4.74 years (December 31, 2010 – nil).

18. Contributed Surplus

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

$000's	**Year Ended December 31, 2011**	Year Ended December 31, 2010
Contributed surplus, beginning of year	**1,900**	1,983
Stock-based compensation	**3,324**	1,710
Exercise of share options	**(1,089)**	(1,793)
Contributed surplus, end of year	**4,135**	1,900

19. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2011, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share [1]	Total
January	Jan 31	Feb 15	$0.033	**1,814**
February	Feb 28	Mar 15	0.033	**1,814**
March	Mar 31	Apr 15	0.040	**2,179**
April	Apr 30	May 13	0.040	**2,189**
May	May 31	Jun 15	0.040	**2,192**
June	Jun 30	Jul 15	0.040	**2,192**
July	Jul 31	Aug 15	0.040	**2,194**
August	Aug 31	Sep 15	0.040	**2,194**
September	Sep 30	Oct 14	0.040	**2,194**
October	Oct 31	Nov 15	0.040	**2,197**
November	Nov 30	Dec 15	0.045	**2,478**
December	Dec 31	Jan 13	0.045	**2,481**
Total dividends declared during the year			$0.476	**26,118**

[1] Pursuant to the three-for-one split of CES' outstanding common shares, dividend payments per common share have been retroactively adjusted to reflect the stock split.

Subsequent to December 31, 2011, the Company declared dividends to holders of common shares in the amount of $0.045 per common share payable on February 15, 2012, and March 15, 2012, for shareholders of record on January 31, 2012, and February 29, 2012, respectively.

20. Commitments and Deferred Acquisition Consideration

The Company has commitments with payments due as follows:

$000's	2012	2013	2014	2015	2016	Total
Office and facility rent	1,723	1,000	490	478	226	**3,917**

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

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

In conjunction with the Fluids Management acquisition (note 5), the Company had US$5,000 in additional deferred acquisition consideration payable upon the Fluids Management division achieving an EBITDA target of US$9,500 for the twelve month period post close. The Company paid the deferred acquisition consideration of US$5,000 on August 22, 2011.

21. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at December 31, 2011, with that as at December 31, 2010. The carrying value of accounts receivable, accounts payable and accrued liabilities, bank indebtedness, earn-out payable, deferred acquisition consideration, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value.

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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

$000's	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2011					
Financial Liabilities					
Financial derivative liability	183	183	-	183	-
Total	183	183	-	183	-
As at December 31, 2010					
Financial Assets					
Financial derivative asset	25	25	-	25	-
Total	25	25	-	25	-
As at January 1, 2010					
Financial Liabilities					
Financial derivative liability	11	11	-	11	-
Total	11	11	-	11	-

b) Credit risk

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

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

	As at		
$000's	**December 31, 2011**	December 31, 2010	January 1, 2010
Past due 61-90 days	**11,904**	8,400	2,516
Past due 91-120 days	**3,719**	4,200	4
Past 120 days	**2,571**	663	224
Total past due	**18,194**	13,263	2,744

The Company reduces an account receivable to its estimated recoverable amount. At December 31, 2011, the Company had recorded a provision of $209 (December 31, 2010 – $162; January 1, 2010 – $284) relating to accounts receivable which may not be collectible.

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2011, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $403 lower/higher for the respective year ended December 31, 2011 (2010 – $154 lower/higher).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Company uses the US dollar as its functional currency for the operations of AES Drillings Fluids, LLC. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2011, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease/increase net income of the Company by approximately $357 (2010 – decrease/increase $1).

At December 31, 2011, the Company had entered into the following foreign exchange U.S. dollar forward purchase contracts to manage its exposure to upcoming U.S. dollar denominated purchases pursuant to its Canadian operations:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2012	US$495	Deliverable Forward	Physical Purchase	$1.0227
February 2012	US$595	Deliverable Forward	Physical Purchase	$1.0219
March 2012	US$242	Deliverable Forward	Physical Purchase	$1.0220
Total	US$1,332			$1.0222

At December 31, 2011, the Company had entered into the following foreign exchange U.S. dollar forward sale contracts to manage its exposure to upcoming U.S. dollar denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2012	US$686	Deliverable Forward	Physical Sale	$0.9947
February 2012	US$686	Deliverable Forward	Physical Sale	$0.9858
March 2012	US$686	Deliverable Forward	Physical Sale	$0.9866
April 2012	US$686	Deliverable Forward	Physical Sale	$0.9711
May 2012	US$686	Deliverable Forward	Physical Sale	$0.9853
June 2012	US$686	Deliverable Forward	Physical Sale	$0.9892
July 2012	US$686	Deliverable Forward	Physical Sale	$0.9625
August 2012	US$686	Deliverable Forward	Physical Sale	$0.9936
September 2012	US$686	Deliverable Forward	Physical Sale	$1.0004
October 2012	US$536	Deliverable Forward	Physical Sale	$1.0460
November 2012	US$536	Deliverable Forward	Physical Sale	$1.0462
December 2012	US$536	Deliverable Forward	Physical Sale	$1.0317
Total	US$7,782			$0.9970

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

For the year ended December 31, 2011, the Company recorded a realized gain of $111 (2010 – loss of $23) relating to all of its foreign currency derivative contracts. For the year ended December 31, 2011, the Company recorded an unrealized loss of $207 (2010 – unrealized gain of $24) relating to its foreign currency derivative contracts. The combined fair value of these outstanding risk management liabilities at December 31, 2011, was $183 (December 31, 2010 – asset of $25). At December 31, 2011, a 1% increase / decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease /increase in net income of the Company by $66 (2010 – decrease/increase by $34) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk
Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall drilling activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2011, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

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

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2011:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	71,122	-	-	-	-	**71,122**
Dividends payable [2]	2,481	-	-	-	-	**2,481**
Long-term debt at fixed interest rates [3]	127	620	519	183	-	**1,449**
Long-term debt at floating interest rates [3]	-	-	-	93,362	-	**93,362**
Finance lease obligations at fixed interest rates [3]	71	359	452	805	-	**1,687**
Finance lease obligations at floating interest rates [3]	265	1,667	1,251	200	7	**3,390**
Office operating leases	326	1,397	1,000	1,194	-	**3,917**
Total	74,392	4,043	3,222	95,744	7	**177,408**

[1] Payments denominated in foreign currencies have been translated at the respective yearend exchange rate
[2] Dividends declared as of December 31, 2011
[3] Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

22. Capital Management
For the year ended December 31, 2011, the Company considers capital to include shareholders' equity, long-term debt (including current portion), and bank indebtedness. This remains consistent with the year ended December 31, 2010. The Company's

objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk and providing shareholders with a sustainable and prudent level of dividends.

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

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

- The quarterly debt to tangible net worth must not exceed 2.50 to 1.00. The ratio of debt to tangible net worth is calculated as total liabilities per the consolidated financial statements, less future income taxes, less any indebtedness that has been subordinated and postponed to the bank, and less any leases characterized as operating leases divided by the total of stated capital, contributed surplus, retained earnings, and any indebtedness that has been subordinated and postponed to the bank, less any intangible asset, and less any future income tax assets.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the consolidated financial statements divided by current liabilities per the consolidated financial statements excluding the current portion of long-term debt and capital lease obligations and any indebtedness that has been subordinated and postponed to the bank.
- The ratio of Funded Debt to Trailing EBITDA must not exceed 3.00 to 1.00, as calculated on a rolling four-quarter basis.
- The Company shall not make any dividend payments to shareholders upon the occurrence and during the continuance of or the making of which would give rise to or cause i) an Event of Default or ii) any event or condition which, with the giving of notice, lapse of time or upon declaration or determination being made (or any combination thereof), would constitute an Event of Default.

As at December 31, 2011, the Company is in compliance with all of the financial requirements under this agreement.

23. Supplemental Information

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

	Year Ended December 31,	
$000's	**2011**	2010
Decrease (increase) in current assets		
Accounts receivable	**(63,992)**	(63,109)
Inventory	**(27,275)**	(12,608)
Prepaid expenses	**(2,630)**	(2,159)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**23,781**	23,180
	(70,115)	(54,696)
Relating to:		
Operating activities	**(70,956)**	(55,090)
Investing activities	**841**	394

For the years ended December 31, 2011 and 2010, changes in non-cash working capital relating to investing activities have been included in “Investment in property and equipment” on the Consolidated Statement of Cash Flows.

24. Segmented Information

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

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

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

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

	Year Ended December 31, 2010				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	220,990	15,297	13,960	(1,131)	249,116
Gross margin	59,744	3,791	4,871	-	68,406
Depreciation and amortization	4,048	1,664	727	-	6,439
Interest expense	1,424	124	49	-	1,597
Income before taxes	27,437	2,704	1,613	-	31,754
Total assets	259,672	12,821	15,377	-	287,870
Capital expenditures	8,716	2,257	29	-	11,002

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

	Revenue	
	Year Ended December 31,	
$000's	**2011**	2010
Canada	**209,013**	139,461
United States	**250,244**	109,655
Total	**459,257**	249,116

	Long-Term Assets [1]		
$000's	**December 31, 2011**	December 31, 2010	January 1, 2010
Canada	**76,904**	70,575	66,214
United States	**77,290**	72,509	16,980
Total	**154,194**	143,084	83,194

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

(stated in thousands of Canadian dollars, except per share amounts)

25. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2011, remuneration of $10,709 included $9,958 of salaries and cash-based compensation and $751 of stock-based compensation costs (December 31, 2010 – $6,462 and $191, respectively).

26. Significant Subsidiaries

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

Subsidiary Name	Country of Incorporation	Ownership Interest %		
		December 31, 2011	December 31, 2010	January 1, 2010
Canadian Energy Services L.P.	Canada	**100%**	100%	100%
AES Drilling Fluids, LLC	United States	**100%**	100%	100%

27. Economic Dependence

For the year ended December 31, 2011, one customer accounted for 14% (2010 – one customer accounted for 11%), of the Company's total revenue.

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: CEU

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James (Jim) G. Sherman

[1]Member of the Audit Committee
[2]Member of the Governance and Compensation Committee

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Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
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SOLICITORS
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