Canadian Energy
SERVICES

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2012

March 28, 2013

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GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Conversion Information Circular**" means the joint information circular dated November 25, 2009 for the special meeting of Shareholders and Unitholders to consider the Conversion Transaction;

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

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

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

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

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

"**Escrow Agent**" means Computershare Trust Company of Canada, in its capacity, as the context permits, as escrow agent under certain escrow arrangements involving the Corporation;

"**FM**" means Triple C Capital Ltd. (formerly Fluids Management II, Ltd.);

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

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

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

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

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

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

"**HSBC USA**" means HSBC Bank USA, National Association;

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

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

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

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

"**JACAM**" means Jacam Chemical Company 2013, LLC, an indirect wholly-owned subsidiary of CESTC;

"**JACAM Chemicals**" means Jacam Chemical Company, LLC, a private corporation incorporated in Delaware, USA;

"**JACAM Acquisition**" means the acquisition of all of the business assets of JACAM Chemicals and all of JACAM Chemicals' subsidiaries;

"**JACAM Business Acquisition Agreement**" means the business acquisition agreement dated March 1, 2013, between CESTC, AES Holdco, JACAM Chemicals and Gene Zaid;

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

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

"Mega Fluids" means Mega Fluids Mid-Continent, LLC, a private corporation incorporated in Oklahoma, USA;

"**Mega Fluids Acquisition**" means the acquisition of all of the business assets of Mega Fluids;

"Mega Fluids Escrow Agreement" means the escrow agreement among CESTC, AES, Jason Francis, Bryan Coy and the Escrow Agent pursuant to the Mega Fluids Acquisition;

"**NAM**" means the North American market;

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

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

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

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

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

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

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

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

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

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

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

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

"**Stock Split**" means the three-for-one split of the Corporation's outstanding common shares that occurred on July 13, 2011;

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

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

"Tervita" means Tervita Corporation, a private corporation incorporated under the ABCA ;

"**Tervita Acquisition**" means the acquisition of all of the drilling fluids assets of Tervita;

"Tervita Escrow Agreement" means the escrow agreement among CESTC, the Partnership, John Nash, John Ewanek, David Van Belleghem, Shannon Walsh, Lara Van Belleghem, Diane Nash and the Escrow Agent pursuant to the Tervita Acquisition;

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

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

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

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

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

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

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

"**US Drilling Fluids Acquisitions**" means, collectively, the Champion Acquisition, the FM Acquisition and the Mega Fluids Acquisition;

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

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

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

Unless otherwise indicated:

- **references in this Annual Information Form to "$" or "dollars" are to Canadian dollars;**
- **all share references in this Annual Information Form are presented after giving effect to the Stock Split; and**
- **all information in this Annual Information Form is presented as of December 31, 2012.**

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

- CESTC's business plan;
- uncertainty, frequency and amount of the payment of dividends of the Corporation;
- designation of dividends as "eligible dividends" under the Tax Act;
- capital expenditure programs and increases in the Corporation's equipment base;
- projections of market prices and costs;
- supply and demand for oilfield services and industry activity levels;
- expectations regarding the Corporation's ability to raise capital;
- expectations regarding the Corporation's lender's ability to continue to fund debt;
- amounts to be retained by the Corporation for capital expenditures and to manage seasonal fluctuations in operating cash flow;
- crude oil and natural gas prices;
- oil and natural gas drilling and development activity;
- marketing personnel;
- treatment under governmental regulatory regimes;
- dependence on equipment suppliers and equipment improvements;
- dependence on personnel;
- availability of required supplies;
- timing for completion of CESTC's barite grinding facility;
- collection of accounts receivable;
- operating risk and liability;
- expectations regarding expansion of services and increased market share in the US drilling fluids business and production and chemicals business;
- expectations regarding the demand for the Corporation's drilling fluid services;
- expectations regarding annual revenue growth in 2013 attributable to CESTC's US operations;
- expectations regarding improved activity levels throughout 2013;
- expectations regarding market prices and costs;
- results and impact of legal proceedings involving the Corporation or its subsidiaries;
- expansion of services and operations in Canada, the United States and internationally;
- expectations of exposure to environmental penalties;
- development of new technology and products;
- operation and effectiveness of business relations with Tervita;
- making of certain disclosure filings; and
- competitive conditions.

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

Risks relating to the Corporation and its business:

- volatility of industry conditions;
- seasonality;
- alternatives to and changing demands for hydrocarbon products;
- royalty rate changes;
- sources, pricing and availability of products and third-party services;
- credit risk;
- debt service;
- government regulation;
- environmental liability;
- regulations relating to reduction of greenhouse gases;
- operating risks and insurance;
- current and possible future capital market conditions, including global financial conditions;
- vulnerability to market changes;
- proprietary technology;
- risk of third-party claims for infringement;
- agreements and contracts;
- reliance on significant clients;
- reliance on key personnel;
- competition;
- acquisition and development risks;
- risks relating to acquisitions;
- ability to achieve profitability and manage growth;
- potential replacement or reduced use of products and services;
- performance of obligations;
- risks relating to disclosure controls and procedures and internal control over financial reporting;
- risks relating to forward-looking information proving inaccurate;
- legal proceedings;
- unpredictability and volatility of trading prices of the Common Shares;
- uncertainty, frequency and amount of dividends;
- leverage and restrictive covenants;
- restrictions on potential growth;
- issuance of additional Common Shares by CESTC;
- income tax status;
- changes in laws;
- conflicts of interest;
- due diligence with respect to the Conversion Transaction and other acquisitions; and
- tax-related risks associated with the Conversion Transaction and other acquisitions.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this Annual Information Form is based upon independent industry and other publications and websites or was based on estimates derived from the same and the knowledge of and experience of Management in the markets in which the Corporation operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, CESTC. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The

Corporation has not independently verified any of the data from third party sources referred to in this Annual Information Form or ascertained the underlying assumptions relied upon by such sources.

STRUCTURE OF CANADIAN ENERGY SERVICES & TECHNOLOGY CORP.

Canadian Energy Services & Technology Corp.

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

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

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

Complete details of the terms of the Arrangement Agreement, the Arrangement and the Conversion Transaction, are set out in the joint information circular dated November 25, 2009 for the special meetings of Shareholders and Unitholders to consider the Conversion Transaction (the "**Conversion Information Circular**") filed under the Corporation's SEDAR profile at www.sedar.com.

The Common Shares are listed and posted for trading on the TSX under the symbol "CEU" and on the OTCQX under the symbol "CESDF". The head office of CESTC is located at 1400, 700 – 4th Avenue S.W., Calgary, Alberta, Canada, T2P 3J4, and its registered office is located at 4600, 525- 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1G1. See "Business of the Corporation" and "Description of Capital Structure".

Canadian Energy Services L.P.

The Partnership commenced operations on March 2, 2006, by completing the acquisition of the Drilling Fluid Systems Business and the IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit. The Partnership is a limited partnership that was originally formed on January 13, 2006 under the *Limited Partnerships Act* (Ontario).

The Partnership was organized in accordance with, and is governed by the terms and conditions of, the Partnership Agreement. All of the issued and outstanding units of the Partnership are directly owned by CESTC. The General Partner holds a 0.01% general partnership interest in the Partnership. The Partnership's business and affairs are managed by the General Partner. Prior to the Conversion Transaction the Partnership's Class A Units were listed and posted for trading on the TSX under the symbol "CEU.UN". The Class A Units were delisted from the TSX on January 7, 2010 and the Common Shares were listed in substitution thereof under the trading symbol "CEU".

Canadian Energy Services Inc.

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

CES Operations Ltd.

CES Operations Ltd., a wholly-owned subsidiary of the Partnership, was incorporated under the ABCA on September 22, 2006.

CES Holdings Ltd.

CES Holdings Ltd., a wholly-owned subsidiary of the Partnership, was incorporated under the ABCA on December 13, 2012.

CES Holdings Luxembourg S.a.r.l.

CES Holdings Luxembourg S.a.r.l., a wholly-owned subsidiary of the Partnership, was incorporated under the laws of Luxembourg on December 14, 2012.

AES Holdco

AES Holdco, a Delaware limited liability company of which CES Operations Ltd. is the sole shareholder, was formed on January 18, 2011.

AES Drilling Fluids, LLC

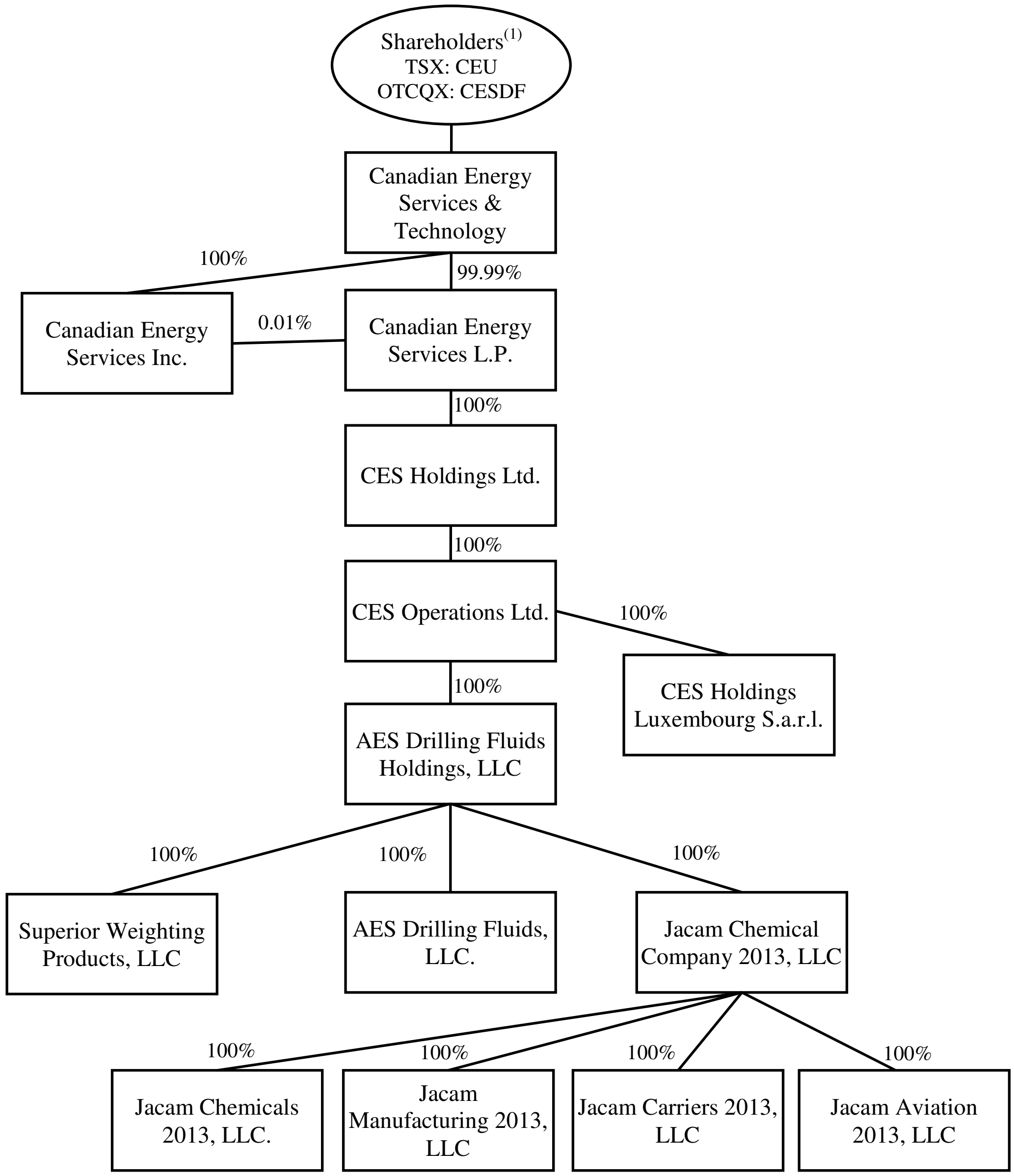
AES, a Delaware limited liability company of which AES Holdco is the sole shareholder, was formed on November 28, 2006. Each of CES Operations Ltd., AES Holdco and AES were formed in connection with the Partnership's initial operational expansion strategy into the United States. AES conducts operations in the United States through four regional divisions. The Rocky Mountain division from its office located in Denver, Colorado; the Mid-Continent division from its office located in Edmond, Oklahoma; the Northeast division from its office located in Canonsburg, Pennsylvania and the Gulf Coast division from its office located in Houston, Texas. The Houston office also serves as the corporate headquarters for AES.

Jacam Chemical Company 2013, LLC

JACAM, a Delaware limited liability company of which AES Holdco is the sole shareholder, was formed on February 20, 2013. On March 1, 2013, JACAM, and its wholly-owned subsidiaries, acquired all of the business assets of JACAM Chemicals and all of the assets of JACAM Chemicals' subsidiaries pursuant to the terms of the JACAM Acquisition Agreement. JACAM is a production and specialty chemical sales and manufacturing company and conducts the Corporation's US production and specialty chemicals operation out of the JACAM office located in Sterling, Kansas. JACAM's four wholly owned subsidiaries are Jacam Chemicals 2013, LLC (incorporated on February 20, 2013, Delaware), Jacam Manufacturing 2013, LLC (incorporated on February 20, 2013, Delaware), Jacam Carriers 2013, LLC (incorporated on February 20, 2013, Delaware) and Jacam Aviation 2013, LLC (incorporated on February 22, 2013, Delaware).

Intercorporate Relationships as at March 1, 2013

The following diagram sets forth the corporate organizational structure of CESTC:



Note:

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

GENERAL DEVELOPMENT OF THE BUSINESS

General

Since CESTC's IPO in March 2006, through a combination of strategic acquisitions and organic growth, CESTC has become a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market.

Drilling Fluids

- Providing technology-driven products to allow exploration and production companies to drill more efficiently

Completion & Stimulation

- Supporting and supplying pressure pumpers and other service providers focused on completing and stimulating oil and gas reservoirs

Production

- Providing chemical solutions downhole and for gathering infrastructure to maximize production and reduce equipment maintenance

Pipelines & Midstream

- Infrastructure transporting oil and gas to refineries and customers requiring ongoing chemicals to operate efficiently

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

Headquartered in Calgary, Alberta, Canada, CESTC has operations in western Canada servicing the entire WCSB and has operations in twenty states in the US, where the Corporation is active in the major US basins.

Since the IPO, and including the Conversion Transaction, CESTC has completed eight acquisitions totaling over $370 million and has invested approximately $60 million in capital expenditures to organically grow its business. As a result of its strategic growth initiative and vertical integration, CESTC has evolved from a regional supplier of drilling fluids in the WCSB to a recognized industry name in the manufacturing and supply of engineered chemical and consumable solutions to the North American oil and natural gas industry. The Corporation's two core businesses are drilling fluids and production and specialty chemicals, which combined represent over 90 percent of the Corporation's current revenue stream.

The drilling fluids business implements drilling fluid systems for North American based oil and natural gas producers. The Corporation's drilling fluids business operates throughout the NAM and in particular in the WCSB and in the US, with an emphasis on servicing the major resource plays in North America. CESTC operates its drilling fluids business as Canadian Energy Services and Moose Mountain Mud in the WCSB. CESTC's indirect wholly-owned subsidiary, AES conducts drilling fluids operations in the US. Horizontal drilling is the primary method utilized to drill formations currently being exploited in the major resource plays in North America. The key drilling targets include tight gas, liquids rich gas, tight oil, heavy oil, and in the oil sands. The function of the Corporation's designed drilling fluids encompass cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area.

The production and specialty chemicals business designs and manufactures a complete line of production specialty chemicals for use in both the North American oil and natural gas industry and for specific industrial applications. The Corporation's production specialty chemicals business operates in the US and in the WCSB, with an emphasis on servicing the major oil and natural gas liquids resource plays. CESTC's indirect wholly-owned subsidiary, JACAM, conducts specialty chemicals operations in the US. CESTC operates its production specialty chemicals business as PureChem Services in the WCSB. The Corporation offers a diverse suite of over 450 proprietary production specialty chemical products to solve the unique chemistry issues faced in today's complex and highly regulated oil and natural gas operating environment. Production and specialty chemicals provide technically advanced solutions and products for completions and stimulations, production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. Key solutions include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products.

The Corporation's drilling fluids and production chemicals systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process, and to assist them in meeting operational objectives and environmental compliance obligations. The production and specialty chemicals business also manufactures some of the drilling fluids sold by the Corporation's drilling fluids business.

CESTC 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 fluids systems and the technical expertise and experience of its personnel. CESTC is committed to providing innovative and cost-effective engineered chemical and consumable solutions to its customers. CESTC's continued development of new technology and focus on customer service has contributed to its success to date and are expected to be key elements of CESTC's future success. CESTC's research and development efforts are focused on providing specific solutions to the drilling and operational challenges experienced by CESTC's customers who operate across the entire oil and natural gas industry (drilling, completions and stimulation, production, pipelines and midstream).

With the addition in 2013 of JACAM's state of the art laboratory in Sterling, Kansas, CES now operates four separate lab facilities across North America, which in addition to the Sterling, Kansas facility includes Carlyle, Saskatchewan; Calgary, Alberta; and Houston, Texas. CESTC's main manufacturing and reacting facility is located in Sterling, Kansas and its Canadian chemical blending facility is located in Carlyle, Saskatchewan.

Conversion Transaction

The limited partnership structure CESTC previously operated under restricted its ability to grow in the United States. Pursuant to the Partnership Agreement in place, only persons who were residents in Canada for purposes of the Tax Act, were able to own the Class A Units. CESTC at the time assessed several options available to expand its equity holding base beyond Canadian residents, and provide long-term stability of after-tax income for Unitholders. On November 10, 2009, the Partnership entered into the Arrangement Agreement with Nevaro whereby it was converted from a limited partnership structure to a dividend paying corporation pursuant to the Arrangement. The Arrangement became effective January 1, 2010. Following completion of the Arrangement, CESTC did not retain any interest in the businesses of Nevaro and former Nevaro shareholders did not retain any interest in the businesses of the Partnership (or CESTC). See also "Structure of Canadian Energy Services & Technology Corp.".

Despite the change in legal structure from a limited partnership structure to a dividend paying corporation, CESTC's business activities and business strategy remained unchanged and the board of directors and officers at the time of the Conversion Transaction remained the same.

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

Acquisitions and Investments

Acquisition of Champion Drilling Fluids

On November 30, 2009, the Partnership and AES completed the Champion Acquisition, for a purchase price of approximately US$16.4 million. The Champion Acquisition allowed CESTC to initiate its long-term business plan to grow in the United States.

Total consideration for the Champion Acquisition, excluding transaction costs, was approximately US$16.4 million, consisting of approximately US$7.8 million in net cash consideration after a working capital adjustment, plus approximately US$2.3 million in additional deferred acquisition consideration, and approximately US$6.3 million through the issuance of the Champion Debenture. Approximately US$2.0 million of the additional deferred acquisition consideration was paid after the successful business expansion of the Champion drilling fluids business operations into the Marcellus shale region of the United States. The face value of the Champion Debenture was $6.6 million with a fixed conversion price of C$2.79 per Common Share and paid interest monthly at 12% per annum. The Champion Debenture was converted into 2,375,328 Common Shares on the completion of the Conversion Transaction on January 1, 2010. The Common Shares issued upon the completion of the Conversion Transaction were subject to escrow provisions, with one-third of the escrowed shares released, on each of the first, second, and third anniversaries after closing of the Champion Acquisition.

The Corporation filed a business acquisition report ("**BAR**") in respect of the Champion Acquisition on February 16, 2010.

Acquisition of Fluids Management II, Ltd.

On June 30, 2010, CESTC and its wholly-owned indirect subsidiary AES purchased all of the drilling fluids business assets of Houston, Texas based FM, and certain additional assets relating to FM from two affiliates of FM, Brookshire Investment Trust and Stikley Enterprises, Inc. The aggregate purchase price was approximately US$67.3 million consisting of approximately US$38.7 million in cash, approximately $21.5 million in share consideration through the issuance of 3,868,110 Common Shares, and approximately US$5.0 million in additional deferred acquisition consideration.

Established in 1996, FM was a leading independent full-service drilling fluids company providing drilling fluid solutions for a large number of oil, natural gas, and unconventional natural gas developers operating primarily in Texas, Louisiana, West Virginia and Pennsylvania, and offshore in the Gulf of Mexico. FM's experienced team built the business over time with a focus on continued profitability and revenue growth. The company had a customer base of over 30 clients and proven technical capabilities in delivering high quality drilling fluid products and services. Additionally, FM was an industry leader in supplying environmentally superior synthetic invert fluids for onshore use. The FM Acquisition was strategically aligned with CESTC's long-term business plan to pursue growth opportunities in the United States. On closing of the FM Acquisition, the Corporation had approximately 3% of the US drilling fluids market when the business assets of FM were combined with the business assets acquired in the Champion Acquisition.

The Corporation filed a BAR in respect of the FM Acquisition on August 16, 2010.

Expansion into Production Chemicals and Drilling Fluid Chemicals

In June 2010, CESTC took its first step in becoming a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield through the establishment of its PureChem division. PureChem is CESTC's chemical blending division which blends and sells both drilling fluid products and production and stimulation chemicals. In Q1 2011, CESTC completed the construction of the chemical blending facility and warehouse facility in Carlyle, Saskatchewan and commenced operations.

Acquisition of Petrotreat Inc.

On February 16, 2012, in order to expand the PureChem division, CESTC completed the acquisition of all the business assets of Petrotreat Inc. ("**Petrotreat**"), a privately-held production chemical and well stimulation service company that provided solutions to oil and gas producers to increase the productivity of their oil, gas, or injection wells and provided products to remove paraffin, asphaltene, and inorganic deposition in the near wellbore or from production equipment both downhole or on surface. The effective date of the acquisition was February 1, 2012. The aggregate purchase price was approximately $3.2 million, consisting of approximately $1.3 million in cash and approximately $1.9 million in share consideration through the issuance of 147,826 Common Shares.

Acquisition of ProDrill

On November 21, 2012, in order to expand the Corporation's Canadian drilling fluid division and to enhance the Corporation's leading position in the oil sands drilling of northeast Alberta, CESTC completed the acquisition of the business assets of Tervita's drilling fluids division, ProDrill Fluid Technologies ("**ProDrill**"). The aggregate purchase price was approximately $12.1 million, consisting of approximately $8.7 million in cash, approximately $3.2 million in share consideration through the issuance of 324,562 Common Shares, and approximately $0.1 million related to working capital adjustments. CESTC and Tervita also entered into both a streaming agreement whereby CES will purchase oil recovered from certain Tervita facilities, and a marketing agreement whereby CES and Tervita will strategically market integrated services across North America in opportunistic situations where an integrated offering is requested by or provides an advantage to the customer. These cooperative agreements are strategic to the Corporation as they are expected to enhance its service offerings to customers throughout the NAM.

Acquisition of Mega Fluids

On December 31, 2012, the Corporation completed the Mega Fluids Acquisition. The Mega Fluids Acquisition is expected to expand the scale and operational capabilities of the Corporation's drilling fluids business within the US market, and specifically the mid-continent region, and is expected to place AES as a leader in the emerging Mississippi Lime oil play. The effective date of the acquisition was December 31, 2012. The aggregate purchase price was approximately US$11.3 million, consisting of approximately US$3.7 million in cash, approximately US$4.0 million in share consideration through the issuance of 376,677 Common Shares, and approximately US$3.6 million in additional deferred acquisition consideration.

Construction of Barite Grinding Facility - Superior Weighting Products

In late 2012, CESTC began construction of a barite grinding facility in Corpus Christi, Texas. Finely ground barite is used as a weighting agent for drilling fluids in oil and gas exploration to suppress high formation pressures and prevent blowouts. The new barite grinding facility is expected to provide the Corporation with vertical integration to ensure the Corporation's supply of barite and reduce the input costs to its drilling fluids business. A new division of CESTC, Superior Weighting Products, will operate the facility and will also sell barite to third parties. The estimated completion of the facility is expected in late 2013**.**

Financings

The Corporation's growth outlined above has been financed through a combination of cash flow, working capital, Common Share issuances, and funding provided from the Corporation's available credit facilities, as discussed in further detail below.

2009 Offering

On November 26, 2009, the Partnership entered into a private placement financing agreement, on a bought-deal basis, pursuant to which the Partnership issued and the underwriters purchased 3,000,000 Class A Units at a price of $3.33 per Class A Unit for aggregate gross proceeds of $10.0 million. The offering closed on December 15, 2009. The Partnership used a portion of the gross proceeds of the offering to fund a portion of the purchase price of the Champion Acquisition.

2010 Offering

On June 22, 2010, CESTC entered into a private placement financing agreement, on a bought-deal basis, pursuant to which CESTC issued and the underwriters purchased a total of 8,715,000 Common Shares at $5.07 per share for aggregate gross proceeds of $45.0 million. The net proceeds of the offering were used by CESTC primarily to repay a US$40 bridge loan that was used to initially finance the cash portion of the purchase price of the FM Acquisition.

Stock Split

On June 30, 2011, the Corporation's shareholders approved a three-for-one split of the Corporation's outstanding Common Shares. The Stock Split was effected in the form of the issuance of two additional Common Shares for each Common Share owned by Shareholders of record at the close of business on July 13, 2011. The Corporation's Common Shares commenced trading on a post-split basis on July 11, 2011, on the TSX.

Loans & Credit Facilities

In December 2011, the Partnership and AES entered into a credit agreement with HSBC and HSBC USA and pursuant thereto the Partnership obtained a senior credit facility in an aggregate principal amount of $70 million and AES obtained a senior credit facility in an aggregate principal amount of US$50 million. In March 2012, the Corporation entered into an amending agreement to its then existing credit agreement permitting it to temporarily borrow up to an additional $20 million. This bridge loan was repaid in September 2012.

In October 2012, the Corporation, through its subsidiaries, the Partnership and AES entered into a syndicated credit agreement with HSBC and HSBC USA and pursuant thereto the Partnership obtained a senior syndicated credit facility in an aggregate principal amount of $100 million and AES obtained a senior syndicated credit facility in an aggregate principal amount of US$50 million (the "**Senior Syndicated Credit Facility**"). The Senior Syndicated Credit Facility has a term to maturity of three years, maturing on October 2, 2015 and may be extended by one year upon the agreement of the lenders and the Partnership and AES. In addition, subject to certain terms and conditions, the Partnership and AES may increase the amount of such credit facility by $30 million subject to the value of certain accounts receivable, inventory, and capital assets.

The obligations and indebtedness under the Senior Syndicated Credit Facility are secured by all of the assets of the Corporation and its subsidiaries and the Corporation and each of its subsidiaries have provided guarantees to the lenders under the Senior Syndicated Credit Facility.

OTC Market Listing

On April 12, 2012, the Common Shares commenced trading in the United States on the highest tier of the OTC market, the OTC International Marketplace ("**OTCQX**"), under the trading symbol "CESDF". OTCQX securities are quoted on the OTC Link platform, operated by OTC Markets Group. The Corporation believes the OTCQX listing provides a cost-effective means of enhancing its visibility and accessibility to US based investors.

Recent Developments

Acquisition of Jacam Chemicals Company, LLC

On March 1, 2013, the Corporation completed the JACAM Acquisition. JACAM Chemicals was a vertically integrated production chemical manufacturing company located in Sterling, Kansas. The JACAM Acquisition is expected to position CESTC to be a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. The aggregate purchase price was approximately US$240 million consisting of approximately US$170 million in cash, approximately US$60 million in share consideration through the issuance of 5,454,545 Common Shares, and US$10 million in additional deferred acquisition consideration.

Bridge Facility

On February 26, 2013, the Partnership and AES completed an amendment to its existing Senior Syndicated Credit Facility (the "**Amended Senior Syndicated Credit Facility**"). The Amended Senior Syndicated Credit Facility allows the Partnership and AES to continue to borrow up to $100 million plus US$50 million, subject to the value of certain accounts receivable, inventory, and capital assets, and borrow up to an additional $160 million ("**Bridge Facility**") for the sole purpose of financing the JACAM Acquisition.

The terms of the Amended Senior Syndicated Credit Facility remain consistent with the terms of the previous Senior Syndicated Credit Facility, with the exception of additional financial covenants and interest rates on the funds advanced on the Bridge Facility that increase quarterly until the facility is repaid. The Bridge Facility has a one year term, as of February 26, 2013 and is repayable in full by February 26, 2014.

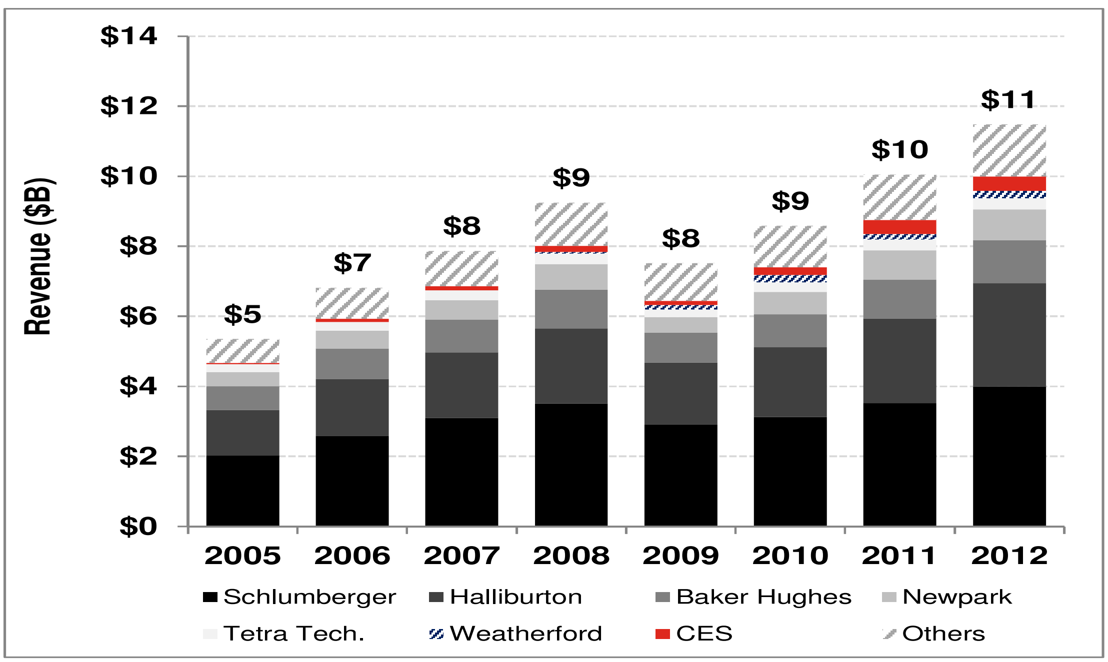
INDUSTRY OVERVIEW

Industry Factors Impacting the Drilling Fluids Business

The upstream oil and natural gas industry in the US and Canada is largely comprised of two types of entities: (i) exploration and production entities ("**Operators**"); and (ii) suppliers of oilfield services and consumables ("**Suppliers**"). Operators generally explore for, develop and produce oil and natural gas reserves. Suppliers generally provide services, products and equipment to assist exploration and production entities in their efforts to explore, develop and produce oil and natural gas reserves. The Corporation is focused on being a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market.

As demonstrated in the chart below, the global drilling and completion fluids' market has more than doubled since 2005 and grown at a compounded annual growth rate of 12% since 2005. Since 2007 CESTC has been able to significantly increase both its US and Canadian market share in the drilling fluids space.

Worldwide Drilling & Completion Fluids Market Size(1)



Source: Spears & Associates Inc.
Note:
(1) Others category includes Scomi Oiltools Bermuda Limited, China Oilfield Services Ltd., Anchor Drilling Fluids USA, National Oilwell Varco, Inc., Superior Energy Services, LLC and others not defined explicitly by Spears & Associates.

Operators base their capital expenditure commitments on many factors, including, but not limited to, hydrocarbon commodity prices, production levels of their current reserves, exploration and development opportunities, political climates and access to both debt and equity capital. Activity levels within the oil and natural gas industry are ultimately affected by the above factors. See "Risk Factors".

An effective drilling fluid system, can reduce time to drill, increase wellbore stability and maximize recovery from the reservoir, which ultimately impacts the economic return of the well. Given the significant economic benefits that drilling fluids can provide, service providers that have the technical expertise, the experience and the product offering to provide optimal drilling fluid systems can present a compelling value proposition to exploration and production entities.

Resource Plays

A large portion of drilling activity in the NAM has been directed to previously uneconomic or marginally economic oil, natural gas liquids, and dry natural gas accumulations that have recently become economically viable through the application of new technologies, like horizontal drilling and multi-stage fracturing. These "resource plays" typically involve large accumulations of oil or natural gas either over a large area and/or vertical section which are often characterized as "tight" having low productivity, low permeability and/or susceptibility to formation damage. Viable resource plays can achieve enhanced profitability if drilled effectively and costs are controlled. Drilling fluid providers who have experience in developing drilling fluid systems for these types of reservoirs can assist Operators in minimizing costs, improving reservoir performance and providing wellbore stability. The Corporation has experience working in most of the relevant and active resource plays and provides drilling fluid systems to Operators in various areas throughout the NAM. As well, the Corporation constantly monitors the development of new resource plays and endeavours to be an "early mover" into a play once a resource play becomes established.

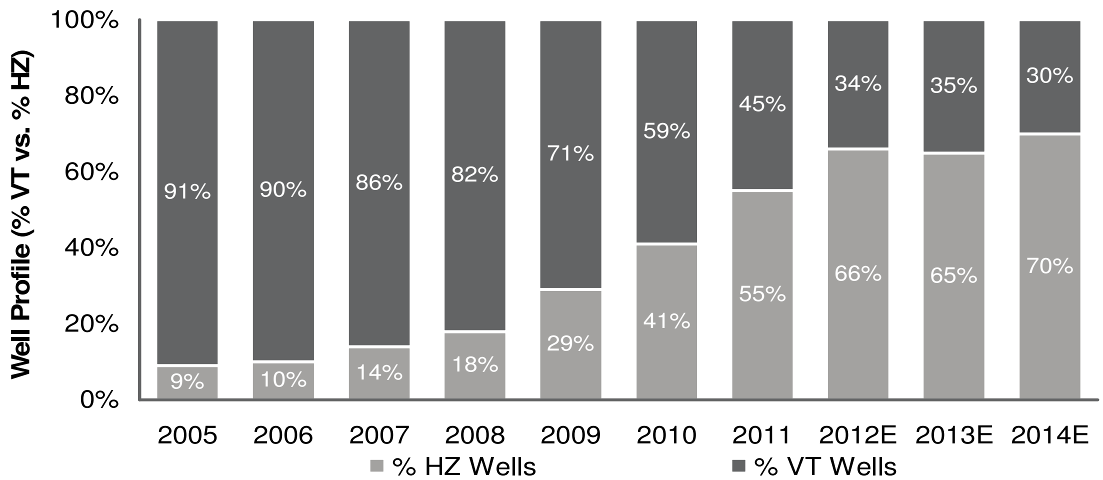
Drilling Activity

Drilling activity in the US reached a near-term bottom in 2009 when the average active rig count dropped to 1,089 according to Baker Hughes Incorporated ("**BHI**"). In 2010 the BHI average active rig count rose sharply to 1,546 and then achieved a near term high of 1,875 in 2011. In the spring of 2012 the combination of record low natural gas prices, a sharp decline in oil prices and concerns about the economies of Europe negatively impacted the capital markets and reduced the cash flows of most Operators. As a result, drilling activity was curtailed somewhat, over the last half of the year and the BHI average rig count for 2012 trended down slightly to 1,871.

Drilling activity trends in the WCSB have been consistent to what happened in the US. Canada experienced a near-term bottom in 2009, a resurgence in drilling in 2010 and a near-term monthly rig count high of 417 average rigs in 2011 according to the Canadian Association of Oilwell Drilling Contractors ("**CAODC**"). For 2012, the CAODC average monthly rig count for the WCSB fell to 344 as a result of the same factors mentioned above that impacted the US. The year over year impact on the Canadian average rig count was more pronounced as the oil and natural gas price differentials experienced by Canadian Operators were much wider, and have proven more persistent, when compared to their US counterparts. Management believes that the monthly rig count in Canada will grow only moderately over the next year until more transport infrastructure, including pipelines and rail and tanker loading facilities, is built in North America to enable the increasing amount of North American oil to reach export markets and achieve the higher world oil price.

Operators in both the US and the WCSB continue to direct resources to resource plays that are often drilled deeper and horizontally, and have longer life reserves and production. In addition based on the current price of oil versus natural gas, capital and resources are being directed away from natural gas to either liquids rich natural gas or oil focused drilling activity. As the chart for the WCSB below illustrates, in 2012, 66% or approximately 2/3rds of the active drilling rigs in the WCSB were drilling for oil versus only 29% for 2009. Consistent with the estimates in the chart below, Management believes US and Canadian Operators will continue emphasizing oil and natural gas liquid reserves until such time as natural gas prices strengthen due to improving supply and demand fundamentals.

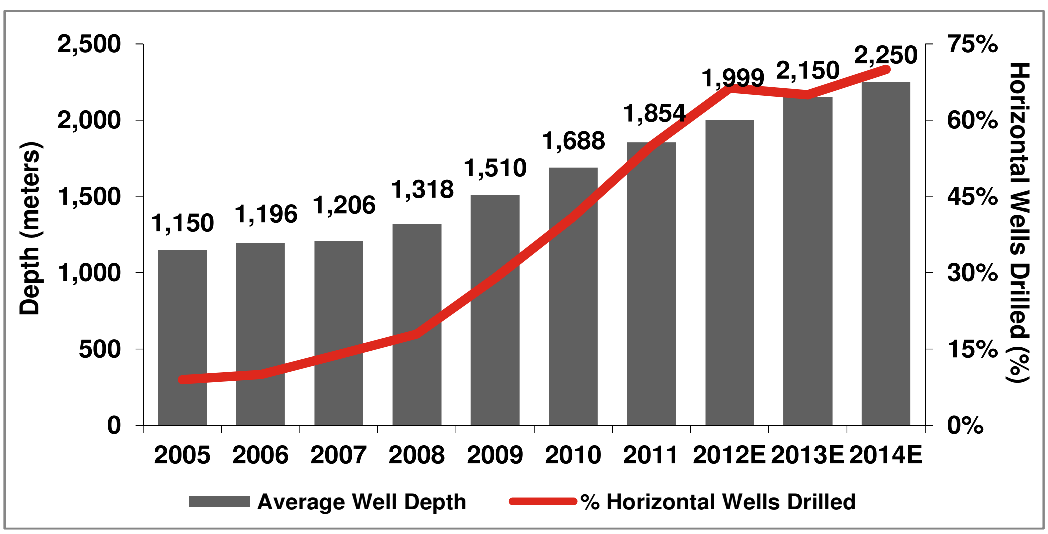
WCSB –New Wells Drilled



Source: Nickles, Baker Hughes Incorporated

As the chart for the WCSB below illustrates, the number of horizontal wells drilled, and the total depth of the wells drilled, over the past few years has been increasing and is expected to continue, albeit at a slower rate of growth than what has recently been experienced in Canada. In particular, Management believes the increased challenge to find new, substantial oil and natural gas liquids reserves in both the US and the WCSB has led some Operators to focus on more complex and deeper reservoir targets.

WCSB –Well Depth and Percentage of Wells Drilled Horizontally



Source: Nickles, Baker Hughes Incorporated

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

The success of the Corporation's drilling fluids business is directly correlated to the strength of the oil and natural gas industry in the NAM, and in particular, to the level of drilling activity of Operators in the NAM. Management believes that volatility in drilling activity can be attributed to a number of key factors, including, but not limited to, hydrocarbon commodity prices, access of Operators to debt and equity capital, availability of appropriately equipped drilling rigs, availability of qualified personnel, expanded use of non-conventional extraction and production techniques, such as SAGD, coal bed methane extraction and activity in new resource plays that are being exploited through the use of multi-stage fracturing techniques applied in horizontal drilling.

Finding and Development Costs

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

Oilsands/SAGD

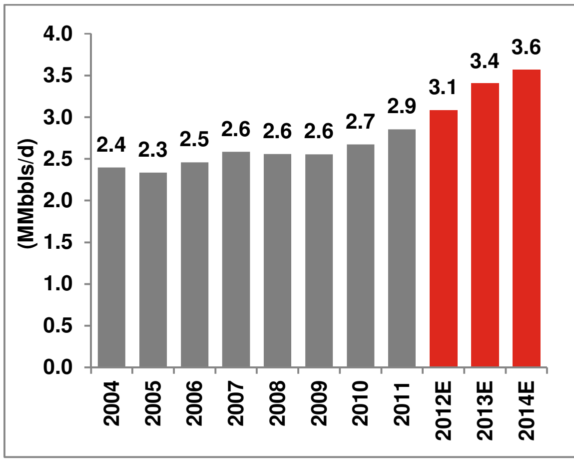
SAGD is an extraction process which is used primarily in oilsands development and heavy oil operations and requires specialized drilling fluid solutions. The SAGD process typically involves drilling pairs of horizontal wells into oilsands or heavy oil reservoirs. The upper well injects steam into the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

Trends

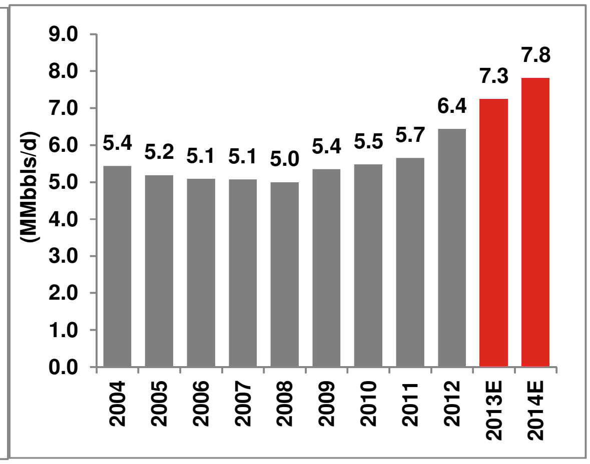
The drilling industry is cyclical and the Corporation's drilling fluids business is directly affected by fluctuations in the level and complexity of oil and natural gas exploration and development activity carried on by its clients. In Canada, drilling activity is seasonal and, in turn, throughout North America it is directly affected by a variety of factors including: weather; oil, natural gas, and natural gas liquids prices; access to drilling and completion equipment; availability of qualified personnel; 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 the Corporation's products and services.

Crude oil prices have been relatively robust over the past few years but continue to face volatility in the face of macro-economic forces. As a result of these robust crude pricing levels, oil production for both the US and Canada has increased steadily over the period of 2008-2012 as the charts below demonstrate. This trend is due primarily to the fact that US and Canadian Operators have focused their efforts on drilling horizontal oil wells into newly established resource plays.

Canadian Crude Oil Production



US Crude Oil Production



Source: Canadian Crude Oil Production data provided by CAPP
US Crude Oil Production data provided by US Energy Information Administration (includes lease condensates)

Contingent on overall drilling activity levels, Management expects the demand for the Corporation's drilling fluid services to continue to grow steadily over time as Operators continue to explore for and develop new resource plays with horizontal drilling (especially those targeting oil and natural gas liquids), thereby utilizing more complex drilling fluids. As Operators continue to explore and develop new resource plays, innovation will be a key element to growth in the drilling fluids business as each new resource play requires new drilling fluid systems to be developed that perform in the specific reservoir characteristics.

Seasonality

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

1. *Mid-November through mid-March* – winter drilling season; drilling activity is high as this is the period when the majority of drilling activity takes place.

2. *Mid-March through mid-May* – spring break-up; drilling activity is low as the northern drilling locations thaw and southern lands become impractical for travel due to wet road conditions or road bans.

3. *Mid-May through mid-October* – summer and fall drilling season; drilling activity is medium to high in the southern areas that are accessible in the summer.

4. *Mid-October to mid-November* – transitioning to winter drilling season; drilling activity is low to medium as Operators are finishing off their summer and fall drilling and preparing for the winter drilling season.

The Corporation's expansion into the US has helped mitigate some of the historical effects of seasonality on the drilling fluids business as seasonality is not a significant factor to drilling activity in the US. 2012 marked the first year that the majority of the Corporation's revenue in the drilling fluids business came from the US drilling fluids operations. Management anticipates that the US drilling fluids business will grow at a greater rate in 2013 than the Canadian drilling fluid business.

Industry Factors Impacting the Production and Specialty Chemicals Business

Through the establishment of PureChem and the JACAM Acquisition, the Corporation has expanded its chemical consumable offerings into the production and specialty chemicals business. The Corporation is a supplier of: (i) production and specialty chemicals to Operators and owners of downstream oil and gas infrastructure

("**Downstream Operators**"); and (ii) chemicals and additives to oilfield service entities for use in completion or stimulation operations that they perform on behalf of an Operator.

Overall demand for the Corporation's production and specialty chemicals is not as cyclical when compared to the Corporation's drilling fluids business as production and specialty chemicals are typically sold to Operators and Downstream Operators on a regular basis to support the continuous production, refining and transport needs of their respective operations.

Trends - Production and Specialty Chemicals – Oil and Natural Gas Production

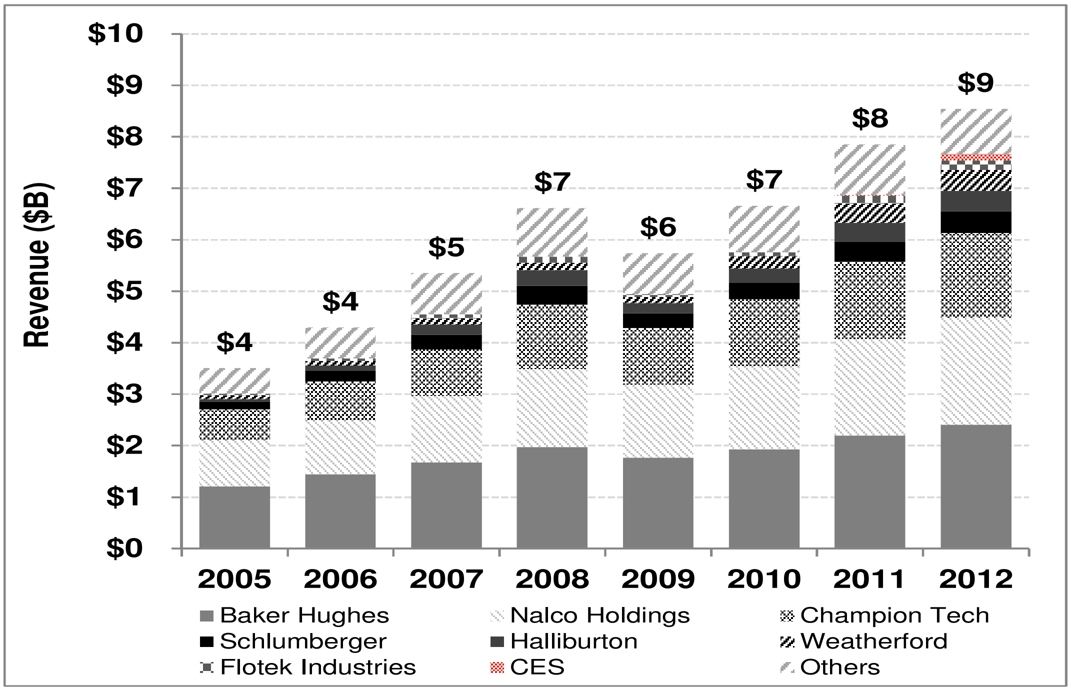
Production and specialty chemicals are used once a well bore starts to produce in order to maximize production levels and to extend the life and economics of both the wellbore and the equipment at the well head that is required to enable the well to produce. Key products that are sold to the Operator include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, biocides and scale inhibitors. Production and specialty chemicals are more commonly used in the production of oil.

There are a number of trends driving growth in the use of production and specialty chemicals for production applications. The number one driver of growth is the increasing presence of water in the produced fluids. Water causes numerous complications for Operators including scale, corrosion, and H_2S all of which require chemical intervention from production stage all the way through to delivery at a refining end-point. Increasing oil production has further driven the demand for production and specialty chemicals as, in general, oil wells have significant volumes of associated water and also have additional challenges such as paraffin that require chemical intervention to solve. Current industry trends have oil production rising and by default associated water production. In addition, in general as oil wells age the percentage of the produced fluid that is water versus hydrocarbon generally rises requiring even more chemical intervention.

Furthermore, as the length and depth of wells increase through horizontal drilling, the volume of each well increases, driving demand for more chemicals. Horizontal wells also have far more complex production challenges, given their size and structure, and as a result these complex production challenges increase demand for specialty production and specialty chemicals. Secondary (i.e. waterfloods), tertiary (i.e. Alkali Surfactant Polymer flood, CO2 flood, etc.) and enhanced (i.e. thermal techniques on heavy oil reservoirs) recovery techniques are also becoming more mainstream, and this trend is resulting in an increased demand for specialty chemicals. Oil wells require more production and specialty chemicals, on average, than gas wells, and the industry is currently developing oil wells at an accelerated rate further driving demand.

The chart below outlines the global market size and recent growth of the production and specialty chemicals market. This market has grown at a cumulative annual growth rate of 14% per year since 2005 mainly as a result of the trends noted above. The market is highly concentrated with Baker Hughes, Nalco Holdings, Champion Technology and Schlumberger accounting for approximately 75% of the global market. In North America, CESTC believes only JACAM is in a position to compete with these industry majors as, CESTC believes all of the "other" North American competitors in the analysis do not have the production and laboratory facilities to be able to design and produce proprietary production and specialty chemicals. As a result of the trends noted above and the favourable position JACAM is in with a new and under-utilized production and laboratory facility, Management believes it can achieve growth in the production and chemicals business comparable to that of the industry on a go forward basis.

Global Production and Specialty Chemicals Market Size



Source: Global market size data provided by Spears & Associates

Trends - Production and Specialty Chemicals – Completion and Stimulation

Completion and stimulation chemicals are pumped down the well, typically with water or oil solutions and proppants, under significant pressure to create cracks (fractures) in the formation. These chemicals are utilized during the completion and production stages of the well to help enhance the wells production.

There are a number of trends driving growth in the use of production and specialty chemicals for completion and stimulation applications. The primary driver of growth in these applications has been the shift to multi-stage fracturing of long horizontal wellbores. As Operators increase the number of multi-stage fractures they apply in each wellbore, more chemicals are consumed. Recompletion activity, or well stimulation, focused on maintaining production from previously drilled wells, is also an area of growth as Operators look to optimize production from horizontal wells facing high declines. Chemical solutions are more and more being employed as part of an overall corporate recompletion / optimization strategy.

Trends - Production and Specialty Chemicals – Pipelines and Midstream

Production and specialty chemicals are used in midstream operations, in refineries and in pipeline segments to aid in hydrocarbon movement and manage hydrocarbon challenges including corrosion, wax build-up and scaling. Downstream Operators own and manage pipeline systems, processing facilities that extract sulfur and natural gas liquids, storage facilities for end products, and other transportation systems used to move products (rail for example). Key products sold to the Downstream Operator include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, biocides and scale inhibitors. Demand for production and specialty chemicals for pipelines and midstream operations is less susceptible to fluctuations and cyclicality given the infrastructure nature of their application.

Numerous trends are driving growth in the production and specialty chemicals business that address pipelines and midstream. One major trend is that the North American energy infrastructure market is aging and more money and chemicals are required to maintain operations. With the growing corporate, social and environmental focus on infrastructure – the major Downstream Operators are very focused on maintenance in order to avoid spills and the resultant negative publicity. As oil production on the continent increases and plans advance for the export of LNG, significant new infrastructure, requiring chemicals, will be required. Infrastructure is also increasingly being used for oil and other liquids products that are corrosive and cause waxing issues, both of which require the use of specialty chemicals.

BUSINESS OF THE CORPORATION

Overview

Servicing the North American oil and natural gas industry, CESTC is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. The Corporation's two core businesses are drilling fluids and production and specialty chemicals which combined represent over 90 percent of the Corporation's current revenue stream. The drilling fluids business implements drilling fluid systems for North American based oil and natural gas producers. The production and specialty chemicals business designs and manufactures a complete line of production specialty chemicals for use in both the North American oil and natural gas industry and for specific industrial applications. Headquartered in Calgary, Alberta, Canada, CESTC has operations in western Canada servicing the entire WCSB and has operations in twenty states in the US, where the Corporation is active in the major US basins.

CESTC has achieved its role as a leading provider of technically advanced consumable chemical solutions in the NAM through a combination of organic growth initiatives and strategic acquisitions made since its initial public offering in March 2006. The Corporation has grown its business organically through increased market penetration of cost-effective engineered chemical and consumable solutions to its customers. Innovation is a key component to the success of CESTC, and with the support of CESTC's customer focused sales and field staff, and supported by its research and development group, new solutions are constantly being developed to meet customer needs. CESTC has also grown through the acquisition of several private companies in both the US and Canada. The Corporation has acquired companies that CESTC believes had a leadership position in their local market, were strategically located and are like minded in CESTC's approach to customer service and innovation.

The Corporation's integrated business is organized as follows:

Core Business: Drilling Fluids

The Corporation's drilling fluids business operates throughout the NAM and in particular in the US and in the WCSB. CESTC earns revenue when it sells a drilling fluid system to a customer, typically an Operator. In advance of the sale of the drilling fluid system, CESTC works collaboratively with the Operator to design a drilling fluid system that will clean the hole, stabilize the rock drilled, control subsurface pressures, enhance drilling rates, and protect potential production zones while conserving the environment in the surrounding surface and subsurface. The Corporation has an extensive product line with several proprietary drilling fluid solutions suitable for all of the onshore and shallow water off shore oil and natural gas drilling currently being done in the NAM.

Core Business: Production and Specialty Chemicals

The Corporation's production specialty chemicals business operates in the US and in the WCSB, with an emphasis on servicing the major oil and natural gas liquids resource plays. The Corporation's JACAM division manufactures and sells both retail and wholesale, a complete line of production and specialty chemicals designed for both the oil and natural gas production and industrial markets. The Corporation's PureChem division designs, blends, and sells specialty drilling fluids for the drilling fluids business and designs, blends, and sells stimulation and production chemicals for oil and gas producers in the WCSB.

Complementary and Supporting Businesses: Environmental and Transport

CESTC provides environmental and drilling fluids waste disposal services to Operators active in the WCSB through its Clear Environmental Solutions ("**Clear**") division. Clear is most active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. The business of Clear involves determining the appropriate processes for disposing of, or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids. The Corporation provides trucks and trailers specifically designed to transport drilling fluids to Operators active in the WCSB through its Equal Transport ("**Equal**") division. The business of Equal is to provide its customers with the necessary trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work, and trained personnel to transport and handle oilfield produced fluids and to haul, handle, manage and warehouse drilling fluids. EQUAL operates from two terminals and yards located in Edson, Alberta, and Carlyle, Saskatchewan.

Description of the Drilling Fluids Business

Drilling Fluid

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

Drilling Fluid Systems

The drilling fluid system is the only component of the well facilities that remains in contact with the wellbore throughout the entire drilling operation. An effective drilling fluid system can improve the Operator's well economics by minimizing fluid losses and reducing the number of drilling days required to drill the wellbore. Using fluid that ensures wellbore stability while drilling can reduce the risk of excessive costs while drilling.

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

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

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

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

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

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

Patented or Proprietary Drilling Fluid System

Through a suite of patented and proprietary drilling fluid systems and products, the Corporation provides a fully integrated approach to the design and execution of drilling fluid systems to the NAM. The Corporation's drilling fluid systems are designed with the assistance of both PureChem and the chemical laboratories of the Corporation's suppliers and are customized to address specific drilling requirements. Management believes that the Corporation's proprietary technology and its proven track record in the field have been key factors in obtaining a number of contracts with active Operators. Management is also of the belief that repeat business from Operators stems from the positive results their drilling operations achieve through the use of our patented and proprietary drilling fluid systems and products.

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

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

Drilling Fluid System	Application	Function
Seal-AX ™ (patent issued in Canada & US)	• Deep /Horizontal	• Provides unique method of reducing seepage and fighting total losses of drilling fluids while drilling in oil-based and water-based muds
Polarbond™	• Deep /Horizontal	• Water based shale inhibitor and friction reducing agent
ABS40™	• Deep /Horizontal	• Specialized environmentally friendly synthetic oil based mud system
Cotton Seal™	• Deep/Horizontal	• Whole mud loss agent and seepage loss agent for oil based mud systems
Enerdrill	• Deep/Horizontal Drill-in Fluid	• Ultra light weight synthetic oil based fluid • Enhances rate of penetration in deep, highly consolidated formations being drilled horizontally
Bond Log Plus	• SAGD	• Enhances quality and integrity of cement jobs in build interval of well

Drilling Fluid System	Application	Function
PureStar	• Deep/Horizontal	• Environmentally compatible salt free synthetic oil based mud system
Envirobond	• Vertical/ Horizontal	• Advanced water-based shale inhibitor • Inhibits hydration and migration of fine solids, clays and shales • Prevents damage to heavy oil production zone • Controls mud density
Liquidrill ™	• Horizontal • Heavy Oil • Long Reach Lateral Sections • Long Interval Sections • SAGD • Multi-Lateral Horizontal Wells • Coalbed Methane	• Clay-free polymer mud system • Controls fluid loss • Proven in many multi-hole projects in high risk areas for shallow vertical depths and long reach lateral sections • Non-damaging water-based drilling fluid
Invert/Ecovert	• Deep Vertical/Horizontal	• Hydrocarbon based • Maintains stability in highly deviated wellbores • Allows pipe to be tripped without restriction
Enerclear	• Medium and Deep/Horizontal	• Weighted salt based fluid for increased drill bit life and faster rate of penetration • System has inhibitive qualities
Liquislide Salt	• Medium and Deep/Horizontal • SAGD • Heavy Oil	• Provides enhanced lubricity to salt and water based systems
Tarbreak	• SAGD	• Reduces adhesiveness of bitumen • Enables drilling by reducing viscosity
Tarbreak #2	• SAGD	• Reduces adhesiveness of bitumen • Enables drilling by reducing viscosity
Poly-Core	• SAGD	• Core fluid for bitumen reservoirs • Oilsands delineation drilling

With wells being drilled to an increased depth and with the length of the horizontal section of a well increasing, drilling in the NAM has become more complex. Accordingly, the applied down-hole technologies are becoming increasingly important in driving success for operators. The Corporation has many other proprietary drilling fluid products in addition to those above and is continually developing new products and systems to meet the ever changing needs of Operators.

Customers

The Corporation focuses on the provision of drilling fluid systems to oil and natural gas exploration and production entities in the US and the WCSB with drilling activities in the Corporation's target market and areas of expertise. In particular, the Corporation is putting an emphasis on servicing the ongoing major resource plays.

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

Competition

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

Description of the Production and Specialty Chemicals Business

The production and specialty chemicals business designs and manufactures a complete line of products and solutions for use in both the North American oil and natural gas industry and for specific industrial applications. Products sold to its customers include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. The production and specialty chemicals business also manufactures some of drilling fluids sold by the Corporation's drilling fluids business. Approximately 80% of the revenue generated by the production and specialty chemicals business is from the sale of production chemicals sold to Operators.

The Corporation offers a diverse suite of over 450 proprietary production specialty chemical products to solve challenges faced by Operators in today's complex and highly regulated oil and natural gas operating environment. With its depth in both patented and proprietary chemical offerings, CESTC can, in many cases, offer immediate solutions to production challenges Operators encounter as they economically get their oil and natural gas production to market. In many instances, similar to the drilling fluids business, a custom approach through advanced chemistry is required to meet the Operators' specific production challenges. In these instances the Corporation applies its technical expertise and the appropriate CESTC lab facilities to develop a specific chemical solution for the Operator. Once the optimal solution is developed CESTC can manufacture or blend the required chemical solution at one of its chemical blending facilities located in either Carlyle, Saskatchewan or Sterling, Kansas. The revenue stream that results from the development of these specialty products is less volatile than revenue achieved at the drill-bit. Once a reputation is established with an Operator and production challenges have been fully addressed, the Corporation expects to sell a steady stream of production and specialty chemicals to that Operator until the wells either stop production or when the Operator decides to change chemical providers. It is the belief of Management of the Corporation that revenues from the production and specialty chemicals business are more stable than the revenues from the drilling fluids business as chemicals, if required for production, are used over the life of a well, not just when the well is drilled.

The Corporation also sells chemicals and additives to oilfield service entities for use in completion or stimulation operations that they perform on behalf of an Operator. The completion and stimulation chemicals are pumped down the well, typically with water or oil solutions and proppants, under significant pressure to create cracks (fractures) in the formation. These chemicals are utilized during the completion and production stages of the well to help enhance the wells production. This is a developing market for the Corporation and at present the revenue stream from the sales to the oilfield service entities for chemicals used in well completions is directly correlated to drilling activity. The sales to the oilfield service entities for chemicals used in well stimulation is the Operator's decision and is undertaken once it is determined that a well, or a group of wells, requires stimulation that will economically enhance production.

CESTC also sells chemicals and additives to Downstream Operators and to other industrial companies. CESTC typically sells corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, biocides and scale inhibitors to these entities. This too is a developing market for the Corporation and the Corporation is actively pursuing new customers in this market. Consistent with how production challenges are solved for the Operator, the Corporation will apply its technical expertise and JACAM's state of the art laboratories in either Carlyle, Saskatchewan or in Sterling, Kansas to develop a specific chemical solution for the Downstream Operator or industrial customer. Demand for production and specialty chemicals to Downstream Operators and other industrials is stable given the infrastructure nature of its application.

Below is a list of production and specialty chemical products offered by the Corporation. The products presented are organized by what function they generally serve.

Production and Specialty Chemical Product	**Description of Application**	**Function**
Stimulation Products	• Acid packages • Surfactants • Solvent packages • Organic acid packages	• Restores and/or increases production from wells
Corrosion Inhibitors	• Resolve corrosion problems in oil, gas and water systems • Effective under carbon dioxide (CO_2), hydrogen sulfide (H_2S) and acid conditions in all aspects of the oil & gas production process • Include corrosion control in downhole equipment, pipelines and facilities	• Extends the life of associated production equipment • Reduces maintenance costs • Reduces lost production time
Paraffin & Asphaltene	• Control the many problems associated with paraffin and asphaltene deposition in oil and gas production • Includes products which inhibit the formation of paraffin and asphaltenes in flow lines, the depression of the pour point of crude oils and products which will remove and disperse paraffin and asphaltene deposits in pipelines and tubing	• Increase the efficiency of the production process • Reduces operating costs
Scale Inhibitors	• Controls the deposition of all forms of carbonate and sulfate scale • Controls scale deposition in downhole equipment and production facility	• Maintains production of wells • Reduces downtime and lost production • Reduces operating costs
Water Treatment	• Chemicals for removing hydrocarbon residue from disposal water • Flocculants for solids removal • Sand control	• Water quality
Emulsion Breakers	• Resolve oil and water emulsions occurring during crude oil production and processing • Assist in the clarification of produced water	• Separate oil from emulsion • Clean water from emulsion and ready for disposal • Reduces operating costs
Foamers& Defoamers	• Foamers from removing H_2O from natural gas wells • Defoamers for alleviating foaming in oil and water systems	• Increase the efficiency of the production process

Production and Specialty Chemical Product	**Description of Application**	**Function**
Gas Sweeteners	• Removal of H_2S from natural gas streams	• Ensures pipeline specification natural gas • Safety
Salt Inhibitors	• Reduces the formation of salt in the production process	• Reduces downtime of wells and lost production
Desalters	• Desalters remove excess salt from oil	
Hydrate Inhibitors Breakers	• Designed to control the formation of gas hydrates in pipelines • Breakers to remove hydrates after formation	• Reduces downtime of wells and lost production
Anti-Foulants	• Preventing asphaltene deposition in process equipment	• Efficient facility operation • Reduces downtime
Biocides	• Control anaerobic and aerobic bacteria for water injection, produced-water and cooling-water systems	• Water quality maintenance
Gas Processing Chemicals	• Dehydration • Heat transfer • Defoamers • Hydrate control	• Process plant efficiencies

Customers

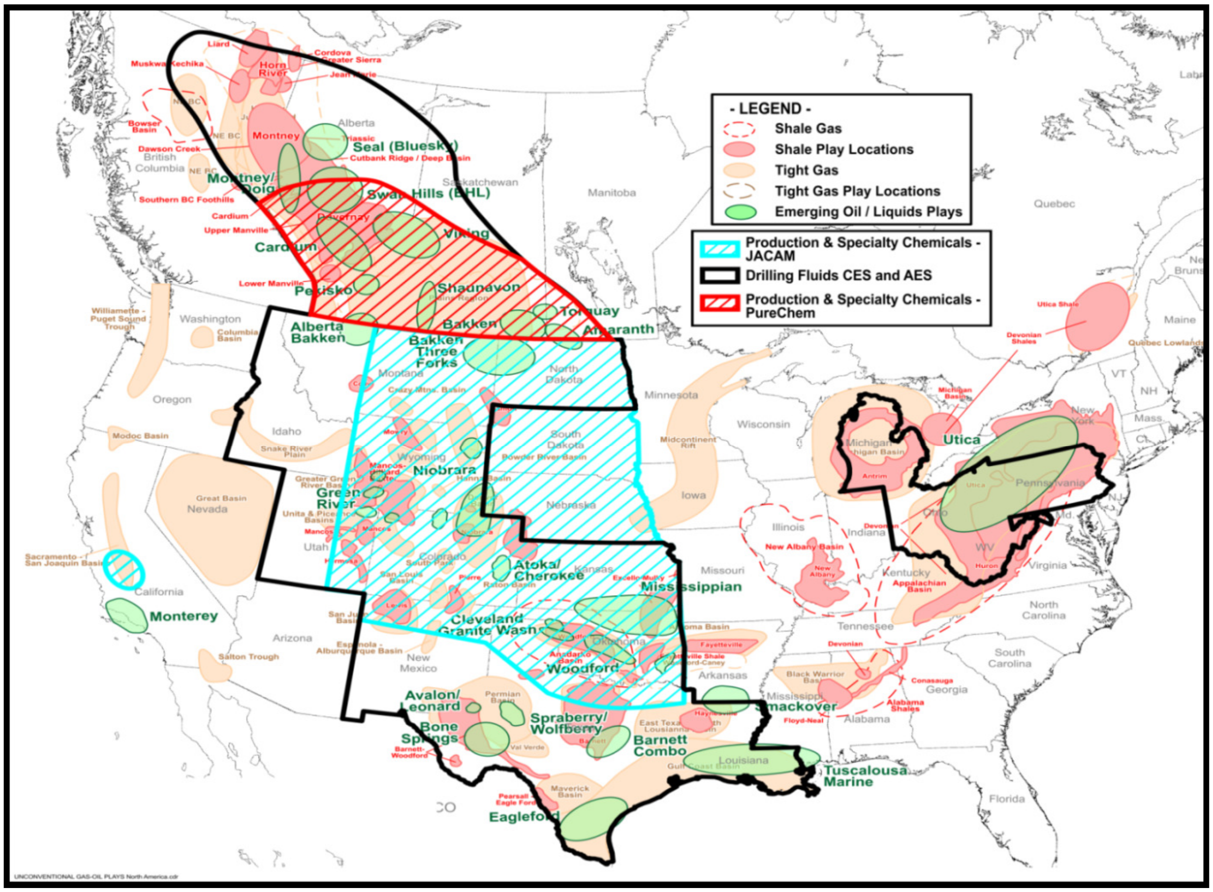
Consistent with the drilling fluids business, the Corporation focuses on the provision of production and specialty chemicals to oil and natural gas exploration and production entities in the US and the WCSB. In the US, JACAM also sells products to service companies and to the pipeline industry. In the US and Canada the production and specialty chemicals business has a customer base of over 350 clients.

Competition

The production and specialty chemicals business is a very competitive and a highly consolidated industry. In North America the number of production and specialty chemicals companies that offer a suite of proprietary products across the life-cycle of the oilfield service is presently dominated by three large conglomerates that control approximately 70% of the industry. Similar to the drilling fluids business, the production and specialty chemicals entities compete by focusing their efforts on the price of materials, quality and efficacy of the product, capabilities of its research and development team, and the knowledge and technical expertise of its management and field personnel. Management believes that its production and specialty chemicals business can grow in a competitive and consolidated marketplace by leveraging our the technical skills and our state-of-the-art facilities as we constantly develop new and innovative solutions to meet our customer’s needs.

Target Market

The Corporation focuses on the provision of consumable chemical solutions to oil and natural gas exploration and production entities across the US and the WCSB. In particular, with respect to the provision of drilling fluids the Corporation is putting an emphasis on servicing the ongoing major resource plays. The production and specialty chemicals business has a similar focus as the drilling fluids business, but given the broader application of its product offering it can expand its target market across all of North America where either on-going activity is occurring or where legacy hydrocarbon production exists. Below is a map indicating where CESTC and its consumable chemical solution divisions operate.



Source: Scotiabank

Services

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

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

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

Equipment and Facilities

The Corporation's core oilfield consumable chemicals business is generally not very capital intensive. The Corporation's equipment consists of chemical reacting, manufacturing and blending facilities, oil based drilling fluid storage and mixing facilities, packaged goods warehouses, field trucks, specialty chemical delivery trucks, field testing equipment, information technology equipment, telecommunications equipment, office equipment and facility improvements.

The Corporation's head office and the Canadian drilling fluids and production and specialty chemical businesses are all located in Calgary, Alberta, AES operates the drilling fluids business out of the Houston, Texas office and JACAM operates the US production and specialty chemical businesses out of Sterling, Kansas.

CESTC, in its capacity as operator of the Canadian drilling fluids business, owns two warehouses and truck terminals located in Edson, Alberta, and Carlyle, Saskatchewan. In Canada, CESTC also rents warehouse space throughout Alberta, British Columbia and Saskatchewan as inventory and stock point locations to facilitate efficient delivery of its services and products to clients. These warehouses are typically owned by trucking companies or oilfield service providers.

AES has operations in fourteen US states that are serviced with five owned warehouses located in Oklahoma, Pennsylvania and Texas and rented stock point facilities located in Colorado, Louisiana, Michigan, New Mexico, North Dakota, West Virginia and Wyoming.

JACAM has one research laboratory, two manufacturing and reacting facilities located in Sterling, Kansas. JACAM operates in fifteen US states that are serviced with fifteen owned warehouses located in Kansas, North Dakota, Oklahoma and Texas and rented stock point facilities located in nine states providing JACAM a presence in almost all of the major US basins. JACAM also owns two parcels of raw land in Oklahoma and Texas.

Personnel

As at December 31, 2012, the Corporation, together with its subsidiaries, employed 543 employees and retained the services of approximately 145 consultants. As at March 1, 2013, the Corporation, together with its subsidiaries, employed 912 employees and retained the services of approximately 146 consultants.

Clients

The Corporation's client base represents a cross-section of the North American oil and natural gas industry, including independent junior and intermediate oil and natural gas exploration and production entities, large multinational producers and joint ventures. In addition the Corporation sells its specialty chemicals to both other oilfield service providers and into the pipeline and mid-stream markets.

The Corporation's business is based in large part on strong client relationships. The Corporation has a well-established client base of approximately 500 Operators having operations throughout western Canada and in the US. The top five clients of the Corporation accounted for approximately 42% of its revenues for the year ended December 31, 2012, with one large independent Operator accounting for approximately 15%.

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

Suppliers

The Corporation has developed relationships with and utilizes a number of suppliers for products used in designing and manufacturing of its consumable chemical solutions and product offerings. CESTC's suppliers include: manufacturers, mining companies, wholesalers and basic chemical specific suppliers. The Corporation sources products throughout North America and internationally. The Corporation will continue to use all available options to supply the appropriate products to its client base and utilize suppliers to:

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

The products used by the Corporation are generally priced and sold by a supplier based on a fee schedule that is fixed for a period of 30 days or more. Because the Corporation is not bound by any material long-term commitments to purchase raw materials, the Corporation is able to purchase directly from the manufacturers or the source supplier, or as required from a wholesaler, depending on several factors, including price and the quantity available to meet the Corporation's ongoing demand. The companies that supply CESTC generally compete for the Corporation's business, which in turn allows the Corporation to benefit from competitive pricing while maintaining the ability to seek out and take advantage of other low-cost alternatives. If costs of raw materials rise, the Corporation's competitors will all generally be exposed to similar cost increases.

The Corporation has a significant procurement group with specialists located in Calgary, Carlyle, Sterling and Houston. The Corporation continues to pursue a more focused approach to direct procurement for manufacturers to realize cost-savings. These improvements have allowed the Corporation to defend margin integrity in an extremely price conscious environment. As a result of its increasing scale the Corporation continues to put more emphasis on procurement practices to improve quality and cost effectiveness of supply.

Competitive Advantages

Management believes that the following factors provide the Corporation with a competitive advantage in the oilfield consumable chemical business:

Strong Reputation and Diversified Client Base

The Corporation, by its estimated market-share, is the largest Canadian drilling fluid systems provider, and is growing its market-share in the US, and is serving a wide range of Operators in the NAM. The Corporation has a growing presence in Canada in the production and specialty chemical business through its PureChem division and has an expanding footprint in the US through its recent JACAM Acquisition. The Corporation's client base represents a cross-section of the North American oil and natural gas industry, including independent junior and intermediate oil and natural gas exploration and production entities, large multinational producers and joint ventures, as well as, other service companies and mid-stream and pipeline companies. Management has a strong reputation which they expect will provide the Corporation with continued client referrals.

Client Retention

The Corporation's business is based in large part on strong client relationships. The Corporation's ability to design and deliver effective oilfield related chemical solutions has historically led to a high retention rate for existing clients that have recurring needs for the Corporation's services. The Corporation has a well-established client base of approximately 500 Operators having operations throughout North America.

Proprietary and Patented Solutions

The Corporation's chemical solutions are designed to meet client-specific objectives Through a suite of proprietary and patented systems and products, the Corporation provides a fully integrated approach to the design and execution of oilfield related chemical solutions required by our customers The Corporation's solutions are designed in-house with its own laboratory facilities and scientists or with the assistance of the chemical laboratories of the Corporation's suppliers and are customized to address specific customer requirements.

Vertical Integration

The Corporation continues to take steps to control its source of supply of input products and to blend or manufacture the products it supplies to its end customers. In 2011, through its PureChem division, CESTC established a chemical blending facility in Carlyle, Saskatchewan to blend specialty products for drilling fluids and to blend production and specialty products for completions, stimulations, production and infrastructure associated with hydrocarbon production. The JACAM Acquisition significantly expands the Corporation's chemical blending capabilities and further vertically integrates the Corporation with advanced chemical reacting capabilities. The manufacturing facilities located in Sterling Kansas allow the Corporation to blend and react both the basic molecules and end products it provides its customers.

Experienced and Committed Management and Professional Team

The Corporation has been successful in attracting and retaining talented professionals. The average experience of Management exceeds 30 years. Management's interests are aligned with those of the Corporation and Shareholders through their holding of approximately 18% of the outstanding Common Shares. See "Directors and Officers", "Description of Capital Structure" and "Escrowed Securities and Securities Subject to Contractual Restrictions on Transfer".

Complimentary Environmental Business

Clear provides environmental consulting and drilling fluids waste disposal consulting services primarily to oil and gas producers active in the WCSB. The business of Clear involves pre-site assessments, and determining the appropriate processes for disposing of or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids. This business line is complementary to the drilling fluids business and provides opportunity to provide a more integrated service in certain circumstances.

Warehousing and trucking

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

Health, Safety and Environment

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

CESTC is committed to and responsible for providing a safe and healthy work environment and protecting its employees, contractors, visitors, property, environment and the public. The Corporation's businesses are committed to meeting or exceeding their respective legislative requirements and to ensuring everyone's right and responsibility to refuse unsafe work. Our projects, product and processes are managed in a way that protects the health and safety of people and minimizes environmental impacts and the communities in which we work.

Each year, CESTC establishes goals and objectives for each of its business divisions with respect to health safety and environment. Our goals and objectives are achieved through the cooperation, involvement, awareness and action of all of the Corporation's employees, contractors and visitors.

A health safety and environment team, which includes professionals certified in safety and industrial/occupational hygiene, is responsible for the development and monitoring of our health safety and environmental programs and along with all levels of employees, ensures successful implementation of these programs. Our Canadian operations successfully participate in the Certificate of Recognition programs in each province in which we work. The health safety and environment team utilizes a variety of tools with which to monitor the success of its program including both leading and lagging indicators.

The Health, Safety and Environment Committee of our Board is responsible for overseeing the Corporation's health safety and environment program and performance. The Committee regularly reviews health safety and environment metrics, including program audit results as well as key areas of focus for the program within the Corporation.

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

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

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

Insurance

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

DESCRIPTION OF CAPITAL STRUCTURE

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

Common Shares

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

Preferred Shares

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

DIVIDEND HISTORY

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

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

Through the course of the year, monthly dividends declared as a proportion of net earnings and cash flow from operations will vary significantly based on the activity levels of the Corporation'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 CESTC's surplus cash reserves or by accessing CESTC's credit facilities.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation, current and anticipated industry conditions and, particularly, growth opportunities requiring expansion capital and Management's forecast of distributable funds. Although, at this time, CESTC 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 CESTC withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CESTC's sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CESTC's business model has historically shown it can support a large proportion of cash flow from operations being paid out as a dividend or distribution as the long-term capital investments required and maintenance capital expenditures required for CESTC to execute its business plan are not significant.

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

The following tables set forth the dividends declared by CESTC on Common Shares during the years ended December 31, 2010, December 31, 2011 and December 31, 2012:

Dividend Record Date	2010 Monthly Common Share Dividend	Dividend Record Date	2011 Monthly Common Share Dividend	Dividend Record Date	2012 Monthly Common Share Dividend
January 31, 2010[(1)]	$0.060	January 31, 2011[(1)]	$0.100	January 31, 2012	$0.045
February 26, 2010[(1)]	$0.060	February 28, 2011[(1)]	$0.100	February 29, 2012	$0.045
March 31, 2010[(1)]	$0.060	March 31, 2011[(1)]	$0.120	March 30, 2012	$0.050
April 30, 2010[(1)]	$0.060	April 30, 2011[(1)]	$0.120	April 30, 2012	$0.050
May 31, 2010[(1)]	$0.060	May 31, 2011[(1)]	$0.120	May 31, 2012	$0.050
June 30, 2010[(1)]	$0.080	June 30, 2011[(1)]	$0.120	June 29, 2012	$0.050
July 30, 2010[(1)]	$0.080	July 29, 2011	$0.040	July 31, 2012	$0.050
August 31, 2010[(1)]	$0.080	August 31, 2011	$0.040	August 31, 2012	$0.050
September 30, 2010[(1)]	$0.080	September 30, 2011	$0.040	September 28, 2012	$0.050
October 29, 2010[(1)]	$0.080	October 31, 2011	$0.040	October 31, 2012	$0.050
November 30, 2010[(1)]	$0.100	November 30, 2011	$0.045	November 30, 2012	$0.055
December 31, 2010[(1)]	$0.100	December 30, 2011	$0.045	December 31, 2012	$0.055
TOTAL[(2)]	**$0.300**	**TOTAL[(2)]**	**$0.476**	**TOTAL**	**$0.600**

Notes

(1) These dividends were paid prior to the Stock Split.

(2) After giving effect to the Stock Split in respect of all dividends paid for the years ended December 31, 2010 and December 31, 2011.

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

As at March 1, 2013, the Partnership and AES are indebted to HSBC and HSBC USA under the Amended Senior Syndicated Credit Facility. Principal and interest payable under the Amended Senior Syndicated Credit Facility have priority over distributions from the Partnership to CESTC, which in turn could affect dividends payable to Shareholders. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Amended Senior Syndicated Credit Facility impose certain restrictive covenants on the Partnership that may affect the payment of distributions. See "Risk Factors – Risks Relating to the Corporation and its Business – Debt Service".

MARKET FOR SECURITIES

As of January 7, 2010, the Common Shares have been listed on the TSX under the symbol "CEU". The following table sets forth the high and low closing prices and volumes traded for the Common Shares for each month of the year ending December 31, 2012:

2012			
	Price Range ($)		
Period	**High**	**Low**	**Trading Volume**
January	11.78	10.12	2,592,800
February	13.18	11.20	2,128,600
March	13.50	11.44	1,922,000
April	12.21	10.95	2,236,500
May	12.57	10.01	1,424,000
June	10.90	8.57	1,982,400
July	10.54	9.15	2,983,500
August	10.93	10.06	1,946,800
September	11.19	10.17	1,912,200
October	10.73	9.90	1,712,100
November	10.97	9.80	1,460,400
December	10.84	10.29	1,571,600

ESCROWED SECURITIES

The following table sets forth the class, percentage and number of securities of CESTC that are subject to escrow or contractual restrictions on transfer as at March 1, 2013.

Designation of Class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class(5)
Common Shares	1,289,370 Common Shares(1)	2.1%
Common Shares	5,454,545 Common Shares(2)	8.7%
Common Shares	324,562 Common Shares(3)	0.5%
Common Shares	376,677 Common Shares(4)	0.6%

Notes:

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

(2) The 5,454,545 Common Shares are held by the Escrow Agent in accordance with the terms of the JACAM Escrow Agreement pursuant to the JACAM Acquisition. The JACAM Escrow Agreement provides that certificates representing 5,454,545 Common Shares held in escrow pursuant to the JACAM Escrow Agreement will be released to JACAM Chemicals as to 1/3 on March 1, 2014, 1/3 on March 1, 2015 and 1/3 on March 1, 2016, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(3) The 324,562 Common Shares are held by the Escrow Agent in accordance with the terms of the Tervita Escrow Agreement pursuant to the Tervita Acquisition. The Tervita Escrow Agreement provides that certificates representing 324,562 Common Shares held in escrow pursuant to the Tervita Escrow Agreement will be released to certain individuals on the second anniversary of the Tervita Escrow Agreement being November 21, 2014, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(4) The 376,677 Common Shares are held by the Escrow Agent in accordance with the terms of the Mega Fluids Escrow Agreement pursuant to the Mega Fluids Acquisition. The Mega Fluids Escrow Agreement provides that certificates representing 376,677 Common Shares held in escrow pursuant to the Mega Fluids Escrow Agreement will be released to certain individuals as to 1/3 on Dec 31, 2013, 1/3 on Dec 31, 2014 and 1/3 on Dec 31, 2015, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(5) Calculated using the number of Common Shares outstanding as at March 1, 2013 of 62,420,498.

DIRECTORS AND OFFICERS

Directors and Officers

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

Name and Municipality of Residence	Position with CESTC and the General Partner	Director or Officer of CESTC (and the General Partner) Since	Occupation during Last Five Years
COLIN D. BOYER (1)(2) .... Victoria, British Columbia, Canada	Director	January 1, 2010 (December 9, 2005)	Independent businessman since August, 2006. Prior thereto, President and Chief Executive Officer of Birchill Energy Limited from March, 2004 to August, 2006. Prior thereto, President and Chief Operating Officer of Birchill

Name and Municipality of Residence	Position with CESTC and the General Partner	Director or Officer of CESTC (and the General Partner) Since	Occupation during Last Five Years
			Exploration Limited.
JOHN M. HOOKS [(1)] .... Calgary, Alberta, Canada	Director	January 1, 2010 (December 9, 2005)	President, Chief Executive Officer and a Director of Phoenix Technology Services Inc., the administrator of Phoenix Technology Income Fund (a directional and horizontal drilling services company).
KYLE D. KITAGAWA, CA [(2)] .... Calgary, Alberta, Canada	Director and Chairman of the Board of Directors	January 1, 2010 (December 9, 2005)	Independent businessman and corporate director since March, 2003. Prior thereto, President and Chief Executive Officer of Enron Canada Corp.
D. MICHAEL G. STEWART [(2)] .... Calgary, Alberta, Canada	Director	January 1, 2010 (January 5, 2006)	Corporate director and principal of Ballinacurra Group since March, 2002. Prior thereto, Executive Vice President , Business Development of Westcoast Energy Inc.
RODNEY L. CARPENTER .... Calgary, Alberta, Canada	Director	January 1, 2010 (December 9, 2005)	Independent Businessman. Former Vice President, Business Development of the General Partner from January, 2006 to December 31, 2008. Prior thereto, President and Chief Executive Officer of CFS.
JAMES (JIM) G. SHERMAN................ Alleyton, Texas, USA	Director	March 16, 2011	President of Fluids Management II Ltd. since May 1996, from which CESTC recently acquired all of its drilling fluids business assets. President of AES since January 1, 2011.
JASON WEST.................................... Hutchison, Kansas, USA	Director and President of JACAM	March 7, 2013	President of JACAM Chemicals since 2009. Prior thereto, VP and General Counsel to JACAM Chemicals.
THOMAS J. SIMONS .... Calgary, Alberta, Canada	Director and President and Chief Executive Officer	January 1, 2010 (December 9, 2005)	President and Chief Executive Officer of the General Partner since March, 2006 and of CESTC since January 1, 2010 and Vice President and principal of Impact.
KENNETH D. ZANDEE......................... Calgary, Alberta, Canada	Vice President, Sales and Marketing	January 1, 2010 (December 9, 2005)	Vice President, Sales and Marketing of the General Partner since March, 2006 and of CESTC since January 1, 2010. Prior thereto, Vice President and Sales Manager of CFS.
KENNETH E. ZINGER .... Calgary, Alberta, Canada	Chief Operating Officer	January 1, 2010 (December 9,	Chief Operating Officer of the General Partner since January, 2006 and of

Name and Municipality of Residence	Position with CESTC and the General Partner	Director or Officer of CESTC (and the General Partner) Since	Occupation during Last Five Years
		2005)	CESTC since January 1, 2010 and President of Impact.
CRAIG F. NIEBOER .... Calgary, Alberta, Canada	Chief Financial Officer	January 1, 2010 (November 17, 2008)	Chief Financial Officer of the General Partner since November 17, 2008 and of CESTC since January 1, 2010. Prior thereto, Chief Financial Officer of BrazAlta Resources Corp. from December, 2006 to November, 2008. Prior thereto, Chief Financial Officer of Quorum Information Technologies Inc. from September, 2003 to December, 2006.
JASON WAUGH .... Carlyle, Saskatchewan, Canada	Vice President	March 7, 2013	Vice President of General Partner and CESTC since March 7, 2013. Prior thereto Division President of the General Partner from July 2010 to March 2013. Prior thereto Division Manager of the General Partner from 2006 to July 2010.
SCOTT R. COCHLAN .... Calgary, Alberta, Canada	Corporate Secretary	January 1, 2010 (February 3, 2006)	Partner at Torys LLP (Barristers & Solicitors) since March 2011. Prior thereto, Partner at Blake, Cassels & Graydon (Barristers & Solicitors) from January 2001 to March 2011.

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

Share Ownership

In view of the fact that Mr. Simons and Mr. Zinger directly or indirectly control corporations that are members of the Impact Vendor Group, and that Mr. Sherman directly or indirectly controls FM, the officers and directors of the Corporation, as a group, beneficially own, or control or direct, directly or indirectly, 4,273,951 Common Shares, being approximately 6.9% of the outstanding Common Shares as at March 1, 2013.

Corporate Cease Trade Orders or Bankruptcies

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

Mr. Hooks was previously a director of Octane Energy Services Ltd. ("**Octane**"), an oilfield services company. On October 15, 2004, Octane announced that it, and its wholly-owned subsidiaries, Octane Energy Services Inc. and Octane Energy Services (B.C.) Inc., filed voluntary applications for protection under the *Companies' Creditors Arrangement Act* ("**CCAA**") to assist Octane in carrying out a restructuring plan. Subsequently, Octane Energy Services Inc. and Octane Energy Services (B.C.) Inc. were placed into receivership by consent, and on June 21, 2005, Octane emerged from protection under the CCAA by satisfying all of its secured and unsecured creditors by payment of 100% of the outstanding claims submitted under the claims process pursuant to the CCAA plan of arrangement. On June 28, 2005, Octane announced that its shareholders voted in favour of changing the name of the company to NX Capital Corp. Mr. Hooks ceased to be a director of Octane in May 2005.

Personal Bankruptcies

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

Penalties and Sanctions

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

Conflicts of Interest

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

RISK FACTORS

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and the Corporation's other public disclosure documents, including the managements' discussion and analysis of operations for the Corporation for the period ended December 31, 2012. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers remote or immaterial, may also impair the operations of the Corporation and its subsidiaries. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Corporation could be materially adversely affected.

Risks Relating to the Corporation and its Business

Volatility of Industry Conditions

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

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

Seasonality

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

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

Alternatives to and Changing Demand for Hydrocarbon Products

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

Due Diligence with Respect to the Conversion Transaction

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

Tax Related Risks Associated with the Conversion Transaction

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

Royalty Rate Changes

Provincial and state governments collect royalties on the production from government lands within their jurisdictions. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. 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 the royalty regimes affect the Operators profits from drilling. Higher loyalty rates could adversely impact the amount of drilling in the subject area.

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

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

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

Credit Risk

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

Debt Service

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

Variations in interest rates and scheduled principal repayments, or the need to refinance all or a portion of the Amended Senior Syndicated Credit Facility upon expiration, could result in significant changes in the amount required to be applied to service the debt of the Corporation under the Amended Senior Syndicated Credit Facility before the distribution of any amounts to the Corporation or the Shareholders. In particular, the Bridge Facility is repayable in full by February 26, 2014. There is no assurance that the Corporation can generate the funds or find replacement financing, on acceptable terms or at all, to pay the Bridge Facility when due.

There can be no assurance that the amounts available under the Amended Senior Syndicated Credit Facility will be adequate for the financial obligations of the Corporation. The Corporation may seek other forms of financing which may be dilutive or which may contain restrictions or covenants that could affect the Corporation's ability to pay dividends or which could otherwise adversely affect the rights of Shareholders.

Government Regulation

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

Environmental Liability

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

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

Regulations Relating to the Reduction of Greenhouse Gases

Concern over the potential impact of global warming, including the prediction of more extreme weather events, has been building momentum in the international community for years. The central tenet is that man-made emissions from a variety of sources, including the burning of fossil fuels like oil and gas, have been causing atmospheric warming that may in turn be changing the climate. The 1992 United Nations Framework Convention on Climate Change (the UNFCCC) calls for cooperation by all countries to take measures to protect the climate system. Subsequent international initiatives, including the 1997 Kyoto Protocol to the UNFCCC, have begun the process of developing an international legal regime, although sustained consensus remains elusive. For example, in December 2012, the Canadian federal government formally withdrew from the Kyoto Protocol, and since the Kyoto Protocol expired at the end of 2012, the international community has not yet agreed to a framework for binding emissions reduction commitments to replace it. Further, the US was never a signatory to the Kyoto Protocol and there is no assurance it will participate in any future framework. In recent years, legislators in Canada and the U.S. - at the federal, provincial, state and local level - have been engaged to varying degrees in policy development, debate, the introduction of legislative proposals, and in some cases, the passage of laws related to climate change. For example, on September 12, 2012 the Canadian federal government released final regulations for reducing greenhouse gas emissions from coal-fired electricity generation: ''Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity'' (the Regulations). The Regulations will require certain Canadian coal-fired electricity generating units, effective as of July 1, 2015, to achieve an average annual emissions intensity performance standard of 420 tonnes of CO2 per gigawatt hour. With some exceptions, the performance standard will apply to new units commissioned after July 1, 2015 and to units that are considered to have reached the end of their useful life, generally between 45 and 50 years from the unit's commissioning date. At the provincial level in Canada, examples of legislation already in place include taxes on carbon based fuels in B.C. and Quebec, a cap-and-trade system for greenhouse gas emissions in Quebec and a greenhouse gas emissions intensity reduction regime in Alberta, which applies to greenhouse gas emitting facilities, including certain oil production facilities. There has been less legislative activity at the state level in the U.S., although there are some state led regional initiatives to develop a greenhouse gas emissions reduction and trading regime, including the Western Climate Initiative (or WCI) which has the support of California and certain Canadian provinces. Although the pace remains uncertain, it is widely expected that the development of a climate change legislative regime will continue in North America, and that the oil and gas industry will increasingly be required to share in the regulatory burden. Any legislative measures that result in additional material costs for the Corporation, and/or for the Corporation's customers, could adversely affect our financial results, in the latter case indirectly by potentially causing a decrease in oil and gas exploration and production and a corresponding decrease in the demand for our services.

Operating Risks and Insurance

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

The Corporation has an insurance and risk management program as well as a health and safety program in place to protect its assets, operations and employees and to address compliance with current safety and regulatory standards. In addition, the Corporation continuously monitors its activities for quality control and safety. However, the Corporation's operations are subject to risks inherent in the oilfield services and chemical manufacturing industries, such as equipment defects, malfunctions, failures and natural disasters, and hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires, product defects, spills or other conditions which may be encountered in drilling and servicing wells and manufacturing chemicals. Although on the drilling and well service side of the business such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Corporation this isn't the situation with the chemical manufacturing arm and, there are no assurances that the Corporation's safety programs will always prevent risks and hazards and these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

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

Capital Markets

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

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

At December 31, 2012, the Corporation had approximately $30.8 million of unused credit available under its Amended Senior Syndicated Credit Facility.

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

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

Global Financial Conditions

Global financial conditions have been subject to increased volatility since 2008 and some financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These or similar factors may impact the ability of the Corporation to obtain equity or debt financing in the future, and if obtained, on terms favourable to the Corporation. If these increased levels of volatility and market turmoil continue, the Corporation's operations could be adversely impacted and the trading price of the Common Shares could be adversely affected.

Vulnerability to Market Changes

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

Proprietary Technology

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

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

Risk of Third-Party Claims for Infringement

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

Agreements and Contracts

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

Reliance on Significant Clients

Certain of the Corporation's clients account for a potentially significant portion of the Corporation's revenues and income. The top five customers of the Corporation accounted for approximately 42% of its revenue for the year ended December 31, 2012, with one large independent exploration and production company accounting for approximately 15%. There is no guarantee that the Corporation could find new clients to replace the loss of any of its significant clients. A loss of any one or more of these significant clients could have a significant adverse effect on the Corporation's business, financial condition, results of operations and cash flows and therefore on dividends declared on the Common Shares.

Reliance on Key Personnel

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

Competition

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

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

Similarly, the principal competitive factors in the production and specialty chemicals business are the price of materials, quality and efficacy of the product, capabilities of research and development teams, knowledge and field personnel. The production and specialty chemicals business is currently dominated by three conglomerates.

Acquisition and Development Risks

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

Failure to Achieve Benefits of Acquisitions

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

Operational and Business Risks Relating to Acquisitions

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

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

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

Ability to Achieve Profitability and Manage Growth

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

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

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

Potential Replacement or Reduced Use of Products and Services

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

Performance of Obligations

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

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

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

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

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

Forward-Looking Information May Prove Inaccurate

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

Legal Proceedings

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

Risks Relating to the Structure of the Corporation

Unpredictability and Volatility of Share Price

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

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

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

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

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

Leverage and Restrictive Covenants

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

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

Restrictions on Potential Growth

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

Issuance of Additional Common Shares

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

Changes in Laws

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

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

Conflicts of Interest

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

AUDIT COMMITTEE INFORMATION

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

LEGAL PROCEEDINGS

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

MATERIAL CONTRACTS

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

INTERESTS OF EXPERTS

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

TRANSFER AGENT AND REGISTRAR

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

ADDITIONAL INFORMATION

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

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans for the year ended December 31, 2012 is contained in the Corporation's Information Circular for the Annual General Meeting of Shareholders held on June 20, 2013. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2012, and the accompanying management's discussion and analysis of financial conditions and results of operations dated March 7, 2013. Shareholders who wish to receive printed copies of these documents free of charge should contact the Corporation using the contact information included on the final page of this Annual Information Form.

SCHEDULE "A"
AUDIT COMMITTEE DISCLOSURE

PURSUANT TO MULTILATERAL INSTRUMENT 52-110

Overview

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

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

The Audit Committee Charter

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

Composition of the Audit Committee

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

Relevant Education and Experience

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

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

Name	Principal Occupation and Biography
D. Michael G. Stewart	Mr. Stewart is a corporate director and serves on the boards of directors of TransCanada Corporation, Pengrowth Energy Corporation and C&C Energia Ltd. Until March 2002, Mr. Stewart was Executive Vice President, Business Development of Westcoast Energy and was responsible for the development of Westcoast Energy's power, international and major new projects. Mr. Stewart graduated from Queen's University in Kingston, Ontario in 1973 with a Bachelor of Science degree with honours in Geological Sciences. He is a member of the Institute of Corporate Directors and the Association of Professional Engineers, Geologists and Geophysicists of Alberta (non-practising).

Name	Principal Occupation and Biography
Colin D. Boyer	Independent Businessman. Mr. Boyer was, until August 15, 2006, the President and Chief Executive Officer of Birchill Energy Limited, a private oil and natural gas company. Mr. Boyer's 30 years of experience in the oil and natural gas industry includes acting as President of Boyer Petroleum Engineering Ltd. from 1985 to 2000, a consulting engineering firm providing services for field operations, production and reservoir analysis and management. Mr. Boyer is currently a director of several private oil and natural gas companies. Mr. Boyer has a Bachelor of Science degree with a major in Petroleum Engineering from the University of Wyoming (1974) and has been a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta since 1976.
Kyle D. Kitagawa, CA	Mr. Kitagawa brings over 25 years experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. He has been an independent businessman since 2003. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Mr. Kitagawa serves as Chairman of Coral Hill Energy Ltd. and is also a Director of Zargon Oil & Gas Ltd. Prior directorships included Advanced Mobile Power Systems, LLC, Esprit Exploration Ltd., Ferus Trust, Independent Energy Ltd., Invasion Energy Inc., Livingston Energy Ltd., Papier Masson Ltee., ProspEx Resources Ltd., and Wave Energy Ltd. He holds a Master of Business Administration degree from Queen's University, a Bachelor of Commerce from the University of Calgary and is a Chartered Accountant.

External Auditor Service Fees

The following table sets out the aggregate fees billed by the Corporation's external auditor for the years ended December 31, 2011, and December 31, 2012.

Period Ended	Audit Fees[(1)]	Audit-Related Fees[(2)]	Tax Fees[(3)]	All Other Fees[(4)]
December 31, 2011	$274,453	$41,605	$144,393	Nil
December 31, 2012	$296,974	$28,355	$230,902	Nil

Notes:

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

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

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

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

SCHEDULE “B”
AUDIT COMMITTEE CHARTER

PART I
ESTABLISHMENT OF COMMITTEE

1. Committee Purpose

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

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

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

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

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

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

2. Composition of Committee

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

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

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

3. Appointment of Committee Members

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

PART II
COMMITTEE PROCEDURE

4. Vacancies

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

5. Committee Chair

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

6. Absence of Chair

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

7. Secretary of Committee

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

8. Regular Meetings

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

9. Special Meetings

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

10. Quorum

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

11. Notice of Meetings

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

12. Agenda

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

13. Delegation

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

14. Access

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

15. Attendance of Others at a Meeting

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

16. Procedure, Records and Reporting

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

17. Outside Consultants or Advisors

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

PART III
MANDATE OF COMMITTEE

18. Appointment of the Corporation's Independent Auditor

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

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

19. Specific Mandates

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

(a) Oversight in Respect of Financial Disclosure

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

A. the audited annual financial statements;

B. the annual information form;

C. the annual management's discussion and analysis;

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

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

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

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

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

A. the unaudited interim financial statements of the Corporation;

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

C. the interim reports of the Corporation;

(iii) review and discuss with management:

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

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

C. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) and in accordance with the Disclosure and Media

Policy of the Corporation, and the Committee need not discuss in advance each instance in which the Corporation may provide earnings guidance or presentations to rating agencies;

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

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

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

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

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

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

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

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

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

(b) Oversight in Respect of Legal and Regulatory Matters

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

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

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

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

(d) Oversight in Respect of the Independent Auditor

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

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

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

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

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

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

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

and report to the Board of Directors on such meetings;

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

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

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

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

A. the aggregate amount of all such non-audit services provided to the Corporation or its subsidiaries constitutes not more than 5% of the total amount of fees paid by the Corporation (and its subsidiaries) to the independent auditor during the fiscal year in which the non-audit services are provided;

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

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

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

(f) Oversight in Respect of Certain Policies

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

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

20. Self-Evaluation

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

21. Non-Exhaustive List

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

22. Review of Committee's Charter

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

23. Oversight Function

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

Canadian Energy
SERVICES

CANADIAN ENERGY SERVICES & TECHNOLOGY CORP.
1400, 700 – 4th Avenue S.W.
Calgary, Alberta, Canada
T2P 3J4

Telephone: 1-888-785-6695
Fax: (403) 266-5708
www.CanadianEnergyServices.com