



**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2013**

**March 13, 2014**

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## GLOSSARY OF TERMS

“**ABCA**” means the *Business Corporations Act* (Alberta);

“**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;

“**AES Permian Acquisition**” means the acquisition by CESTC of all of the business assets of Venture Mud and certain additional assets from affiliates of Venture Mud including VM Transports, LLC, Venture Services LLC, and Venture Services RM, LLC;

“**AES Permian Escrow Agreement**” means the escrow agreement among CESTC, Venture Mud and the Escrow Agent pursuant to the AES Permian Acquisition;

“**Board of Directors**” or “**Board**” means the board of directors of CESTC;

“**BCA**” means the *Canada Business Corporations Act*;

“**CESTC**” or the “**Corporation**” means Canadian Energy Services & Technology Corp.;

“**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;

“**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 Transaction**” means the conversion of the business of CESTC from a limited partnership structure to a corporate structure pursuant to a plan of arrangement under the BCA completed on 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.;

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

“**IFRS**” means International Financial Reporting Standards;

“**IPO**” means the initial public offering of Class A Units 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 Acquisition**” means the acquisition of all of the business assets of JACAM Chemicals and all of JACAM Chemicals’ subsidiaries;

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

**“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;

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

**“Mega Fluids Acquisition”** means the acquisition by CESTC of all of the business assets of Mega Fluids;

**“Mega Fluids Escrow Agreement”** means the escrow agreement among CESTC, AES, the Mega Fluids vendor group and the Escrow Agent pursuant to the Mega Fluids Acquisition;

**“NAM”** means the North American market;

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

**“Senior Facility”** has the meaning ascribed thereto under the heading “General Development of the Business – Senior Facility”;

**“Senior Notes”** has the meaning ascribed thereto under the heading “General Development of the Business – Senior Notes”;

**“Senior Notes Indenture”** has the meaning ascribed thereto under the heading “Description of Capital Structure – Senior Notes”;

**“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;

**“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 by CESTC of all of the drilling fluids assets of Tervita;

**“Tervita Escrow Agreement”** means the escrow agreement among CESTC, the Partnership, the Tervita vendor group and the Escrow Agent pursuant to the Tervita Acquisition;

**“TSX”** means the Toronto Stock Exchange;

**“US”** means United States of America;

**“US Drilling Fluids Acquisitions”** means, collectively, the Champion Acquisition, the FM Acquisition the Mega Fluids Acquisition and the AES Permian Acquisition;

**“Venture Mud”** means Venture Mud One L.P., a private corporation incorporated in Texas, USA; and

**“WCSB”** means the Western Canadian Sedimentary Basin.

**Unless otherwise indicated:**

- references in this Annual Information Form to “\$” or “dollars” are to Canadian dollars;
- except where specifically noted 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, 2013.

**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:

- expected effects of acquisitions and investments;
- expected supply and demand for oilfield chemicals and services;
- expected industry activity levels;
- CESTC’s market positioning, business plans and opportunities for growth;
- anticipated market conditions;
- anticipated reductions in CESTC’s relative exposure to the effects of seasonality in the WCSB due to the growth of its US operations;
- expectations that CESTC’s US business will continue to be a larger revenue contributor in 2014 than the Canadian business;
- expectations regarding expansion of services and increased market share in the US drilling fluids business and production and chemicals business;
- CESTC’s competitive positioning and advantages;
- anticipated timing for completion of CESTC’s barite grinding facility;
- expectations of exposure to environmental penalties;
- CESTC’s dividend policy and expectations as to the payment of dividends in the future;
- the intended designation of dividends as “eligible dividends” under the Tax Act;
- results and impact of legal proceedings involving the Corporation or its subsidiaries; and
- the Corporation’s belief it has sufficient funds available to fund its projected capital expenditures.

The Corporation's actual results could differ materially from those anticipated in such forward-looking information as a result of number of factors and risks. These include, but are not limited to:

- volatility in industry activity levels;
- volatility in oil and natural gas prices;
- reliance on significant clients;
- reliance on key personnel;
- reliance on proprietary technology;
- the need to successfully integrate acquisitions;
- the Corporation's liquidity and access to capital;
- the performance of capital markets; and
- the factors set out under the heading "Risk Factors".

## **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.

## **CANADIAN ENERGY SERVICES & TECHNOLOGY CORP.**

### **Corporate History**

The business currently carried on by CESTC was begun by the Partnership on March 2, 2006 through the completion of the IPO and the acquisition by the Partnership of a drilling fluid systems business. Following the completion of the IPO, the Class A Units were listed on the TSX.

In 2009, it was determined that the partnership structure utilized by the Partnership restricted its ability to grow in the United States. Pursuant to the partnership agreement governing the Partnership, only persons who were residents in Canada for purposes of the Tax Act were able to own the Class A Units. The Partnership assessed several options available to expand its equity holding base beyond Canadian residents and provide long-term stability of after-tax income for its unitholders.

On November 10, 2009, the Partnership entered into an arrangement agreement with the Corporation providing for the Conversion Transaction. As a result of the Conversion Transaction: (i) former holders of Class A Units exchanged them for Common Shares on a one for one basis; (ii) the Partnership and the General Partner became wholly-owned subsidiaries of the Corporation; (iii) the directors and officers of the General Partner became the directors and officers of the Corporation; and (iv) the Class A Units were delisted from the TSX and the Common Shares were listed on the TSX. Following the Conversion Transaction: (i) the Corporation carried on the business previously carried on by the Partnership; (ii) the Corporation did not retain any interest in the business carried on by the Corporation prior to the Conversion Transaction; and (iii) the shareholders of the Corporation prior to the Conversion Transaction did not retain any interest in the Corporation. The Conversion Transaction was completed on January 1, 2010.

## **Jurisdiction of Incorporation and Material Amendments to Articles**

The Corporation was incorporated under the CBCA on November 13, 1986 under the name Senn D'Or Inc. At the time of the completion of the Conversion Transaction, the Corporation was named Nevaro Capital Corporation and its common shares were listed on the TSX Venture Exchange. The Corporation changed its name to Canadian Energy Services & Technology Corp. in conjunction with the completion of the Conversion Transaction. CESTC remains a corporation governed by the CBCA.

On July 8, 2011, CESTC amended its articles of incorporation to split the Common Shares on a three-for-one basis.

On June 20, 2013, CESTC amended its articles of incorporation to vary the terms of the Common Shares to permit the payment of stock dividends.

Other than as described above, there have been no other material amendments to the articles of incorporation of CESTC since the completion of the Conversion Transaction.

## **Head Office and Registered Office**

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 3300, 421 - 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9.

## **CORPORATE STRUCTURE**

### **Subsidiaries**

A description of CESTC's direct and indirect subsidiaries as of March 1, 2014 is provided below.

#### *Canadian Energy Services L.P. (the Partnership)*

The Partnership is a limited partnership that was originally formed on January 13, 2006 under the *Limited Partnerships Act* (Ontario). 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.

#### *Canadian Energy Services Inc. (the General Partner)*

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 governing the Partnership. The General Partner holds a 0.01% general partnership interest in the Partnership. All of the issued and outstanding common shares of the General Partner are directly owned by CESTC.

#### *CES Operations Ltd.*

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

#### *CES Holdings Ltd.*

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



*CES International Operations S.à r.l.*

CES International Operations S.à r.l., a wholly-owned subsidiary of the Corporation, was incorporated under the laws of Luxembourg on December 5, 2013.

*CES Holdings Luxembourg S.à r.l.*

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

*AES Drilling Fluids Holdings, LLC (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)*

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.

*AES Drilling Fluids Permian, LLC*

AES Permian, a Delaware limited liability company of which AES Holdco is the sole shareholder, was formed on May 29, 2013. AES Permian is a company that provides drilling and completion fluid solutions for a number of leading oil and natural gas companies with a focus on the Permian Basin.

*Superior Weighting Products, LLC*

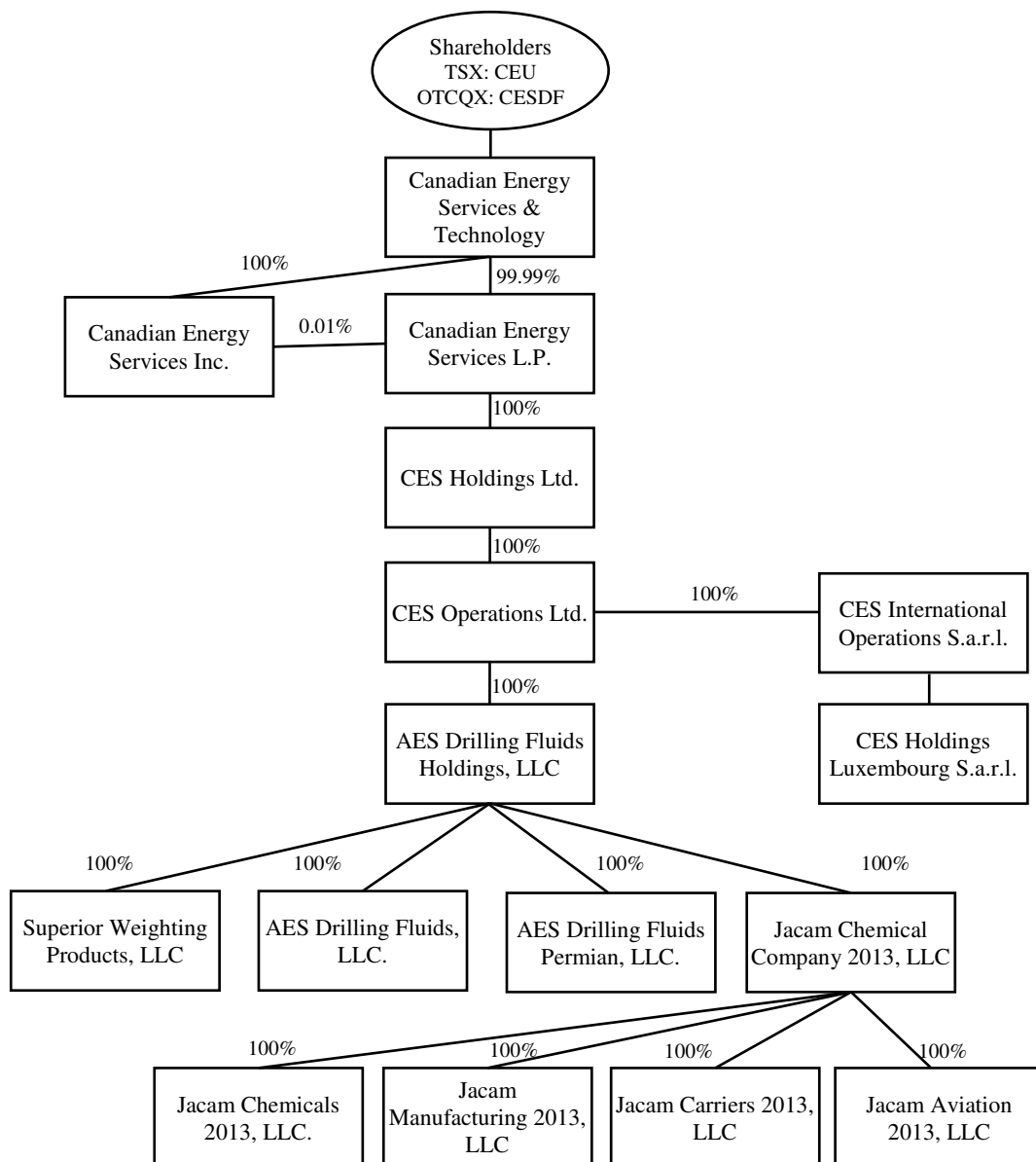
Superior Weighting Products, LLC, a Delaware limited liability company of which AES Holdco is the sole shareholder, was formed on December 5, 2012. Superior Weighting Products, LLC is a company established to construct and operate the Corporation's new barite grinding facility in Corpus Christi, Texas.

*Jacam Chemical Company 2013, LLC (JACAM)*

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 an oilfield chemical manufacturing company which wholesales oilfield chemicals and retail sales production and specialty chemicals. JACAM 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, 2014

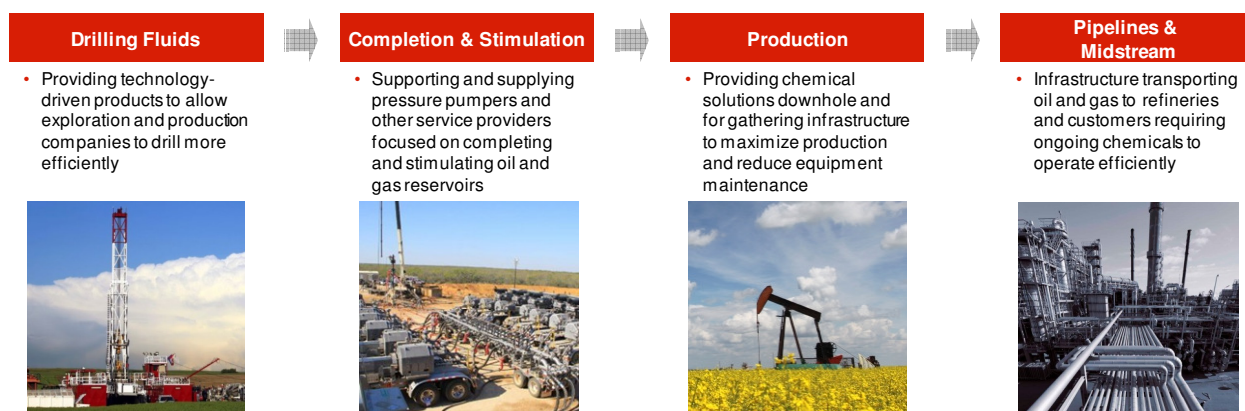
The following diagram sets forth the corporate organizational structure of CESTC:



## 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. At the drill-bit, CESTC's designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CESTC's designed chemicals form a critical component of fracking solutions or other forms of well stimulation techniques. The shift to horizontal drilling and multi-stage fracturing with long horizontal well completions has been responsible for significant growth in the drilling fluids and completion and stimulation chemicals markets. At the wellhead and pump-jack, CES' designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Key solutions include corrosion inhibitors, demulsifiers, H<sub>2</sub>S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipelines and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H<sub>2</sub>S.



Since the IPO, and including the Conversion Transaction, CESTC has completed nine acquisitions totaling approximately \$430 million and has invested approximately \$115 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.

CESTC operates in the WCSB and in several basins throughout the US, with an emphasis on servicing the ongoing major resource plays. In Canada, CES operates under the trade names Canadian Energy Services, Moose Mountain Mud ("MMM"), PureChem Services ("PureChem"), Clear Environmental Solutions ("Clear"), and EQUAL Transport ("Equal"). In the US, CES operates under the trade names AES Drilling Fluids ("AES"), AES Drilling Fluids Permian ("AES Permian"), Superior Weighting Products ("SWP") and JACAM Chemicals ("JACAM"). The Corporation's headquarters are located in Calgary, Alberta, Canada.

The Canadian Energy Services, MMM, AES, and AES Permian brands are focused on the design and implementation of drilling fluids systems for oil and gas producers with SWP providing ground barite as a key feedstock to the Corporation's drilling fluids brands. The JACAM and PureChem brands are vertically integrated manufacturers of advanced production and specialty chemicals for the wellhead and pump-jack, drilling related chemicals, technically advanced fluids for completions and stimulations, and chemical solutions for the pipeline and midstream markets.

Two complimentary business divisions support the operations and augment the product offerings in the WCSB. Clear is CESTC's environmental division, providing environmental consulting and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB.

EQUAL is CESTC's transport division, providing its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work in the WCSB. EQUAL transports and handles oilfield produced fluids and supports the oilfield chemical business by hauling, handling, managing and warehousing products. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

Lead by JACAM's state of the art laboratory in Sterling, Kansas, CESTC operates four separate lab facilities across North America which also includes Houston, Texas; Carlyle, Saskatchewan; and Calgary, Alberta. The Corporation's main chemical manufacturing and reacting facility is located in Sterling, Kansas and its Canadian chemical blending facility is located in Carlyle, Saskatchewan. CESTC also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

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

## **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.

### *FM Acquisition*

On June 30, 2010, CESTC and its wholly-owned indirect subsidiary AES completed the FM Acquisition, consisting of the purchase of 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.

### *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.

#### *Tervita Acquisition*

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 Tervita Acquisition, consisting of the acquisition of the business assets of Tervita's drilling fluids division, ProDrill Fluid Technologies. 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.

#### *Mega Fluids Acquisition*

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 mid-2014.

#### *JACAM Acquisition*

On March 1, 2013, through a US subsidiary, CESTC completed the JACAM Acquisition in order to expand the Corporation's advanced consumable fluids and specialty chemicals business in the US. The JACAM Acquisition consisted of the acquisition of all of the business assets of JACAM Chemicals and all of JACAM Chemicals' subsidiaries. JACAM Chemicals was a private company that manufactures and distributes oilfield related specialty chemicals. JACAM designs and manufactures its products in Sterling, Kansas and provides its products and delivers its services to a large number of companies in the oil and natural gas business throughout the US.

The aggregate purchase price was approximately \$245.6 million (US\$240.0 million) consisting of approximately \$174.3 million (US\$170.0 million) in cash paid on the date of acquisition, approximately \$61.0 million (US\$60.0 million) in share consideration satisfied through the issuance of 5,454,545 Common Shares and a \$10.3 million (US\$10.0 million) promissory note. The Common Shares issued to JACAM Chemicals are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard exceptions including a change of control of CESTC as well as subject to indemnities under the asset purchase agreement, on each of the first, second, and third anniversaries of the closing of the JACAM Acquisition.

The Corporation filed a business acquisition report in respect of the JACAM Acquisition on May 6, 2013. The business acquisition report can be viewed under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *AES Permian Acquisition*

On July 15, 2013, through a US subsidiary, CESTC completed the AES Permian Acquisition, consisting of the acquisition of the drilling fluid business assets of Venture Mud and certain additional assets from affiliates of Venture Mud including VM Transports, LLC, Venture Services LLC, and Venture Services RM, LLC. Venture Mud was a West Texas based private drilling fluids company that provides drilling fluid solutions for a number of leading oil and natural gas companies with a focus on the Permian Basin.

The effective date of the AES Permian Acquisition was July 1, 2013. The aggregate purchase price was approximately \$57.1 million (US\$54.4 million) consisting of approximately \$13.2 million (US\$12.7 million) in share consideration satisfied through the issuance of 838,076 Common Shares and approximately \$44.0 million (US\$42.0 million) payable in cash. Included in cash consideration payable is deferred acquisition consideration of approximately \$19.0 million (US\$18.0 million) which is payable in cash as an earn-out upon the AES Permian division achieving certain EBITDA thresholds over a twenty-four month period post close and approximately \$5.4 million (US\$5.2 million) in other post close and deferred consideration. The Common Shares issued to Venture Mud are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard exceptions including a change of control of CESTC as well as subject to indemnities under the asset purchase agreement, on each of the first, second, and third anniversaries of the closing of the AES Permian Acquisition.

#### **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.

### *2013 Offering*

On August 8, 2013, CESTC, through a syndicate of underwriters, completed a bought deal short-form prospectus offering of Common Shares, pursuant to which, CESTC issued and the underwriters purchased a total of 2,110,000 Common Shares at \$16.60 per share for aggregate gross proceeds of \$35.0 million. The net proceeds of \$32.9 million were used by CESTC to partially repay outstanding indebtedness under the its credit facility and for general corporate purposes.

### **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. Except where specifically noted all share references in this Annual Information Form are presented after giving effect to the Stock Split.

### **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.

### **Senior Facility**

The Corporation has in place a senior secured syndicated credit facility (the "**Senior Facility**") which allows the Corporation to borrow up to \$150.0 million with no borrowing base requirement. The Senior Facility has a term to maturity of three years, maturing on October 2, 2016, and may be extended by one year upon the agreement of the lenders and the Corporation. In addition, subject to certain terms and conditions, the Corporation may increase its Senior Facility by \$30.0 million to a maximum borrowing of \$180 million.

The obligations and indebtedness under the Senior 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 Facility.

### **Senior Notes**

On April 17, 2013, CES completed the private placement of \$225.0 million of 7.375% senior unsecured notes due on April 17, 2020 (the "**Senior Notes**"). The Senior Notes were issued at par value. The net proceeds of the sale of the Senior Notes of \$219.6 million were used by CESTC to repay bridge indebtedness incurred to fund the JACAM Acquisition, to partially repay outstanding indebtedness under the Corporation's credit facility and for general corporate purposes. See "Description of Capital Structure – Senior Notes".

## **INDUSTRY OVERVIEW**

### **Industry Factors Impacting the Oilfield Chemical Business**

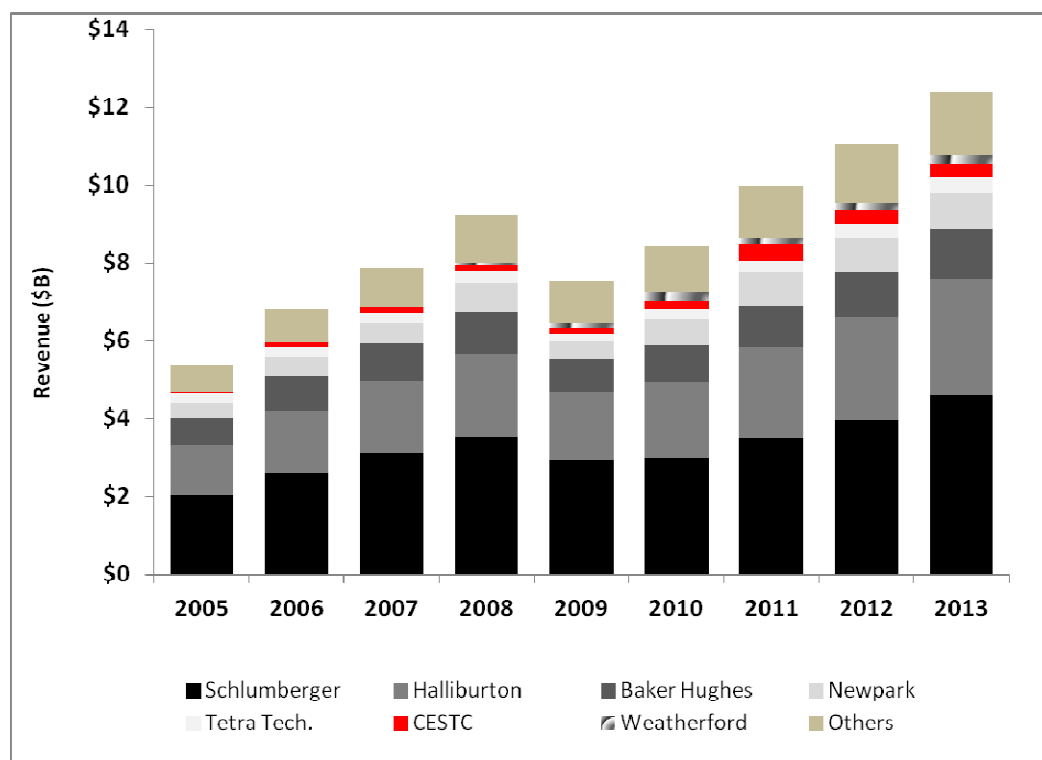
The upstream oil and natural gas industry in the US and Canada is largely comprised of two types of entities: (i) exploration and production entities ("**Operators**"); and (ii) suppliers of oilfield services and consumables ("**Suppliers**"). Operators generally explore for, develop and produce oil 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

A large portion of Operator's capital and 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, natural gas liquids or natural gas either over a large area and/or vertical section which are often characterized as "tight", meaning they have low productivity, low permeability and/or susceptibility to formation damage. Viable resource plays can achieve enhanced profitability if drilled and completed cost effectively, and long-term production can be enhanced through the use of the appropriate application of production chemicals. Oilfield chemical providers who have experience in developing drilling fluid systems for these types of reservoirs, completion and stimulation chemistries, and production chemicals can assist Operators in minimizing upfront drilling and completion costs and improving long-term reservoir performance. The Corporation has experience working in most of the relevant and active resource plays and provides oilfield chemical solutions 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.

### Industry Factors Impacting the Drilling Fluids Business

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 over 13% since 2005.

*Worldwide Drilling & Completion Fluids Market Size<sup>(1)</sup>*



Source: Spears & Associates Inc.

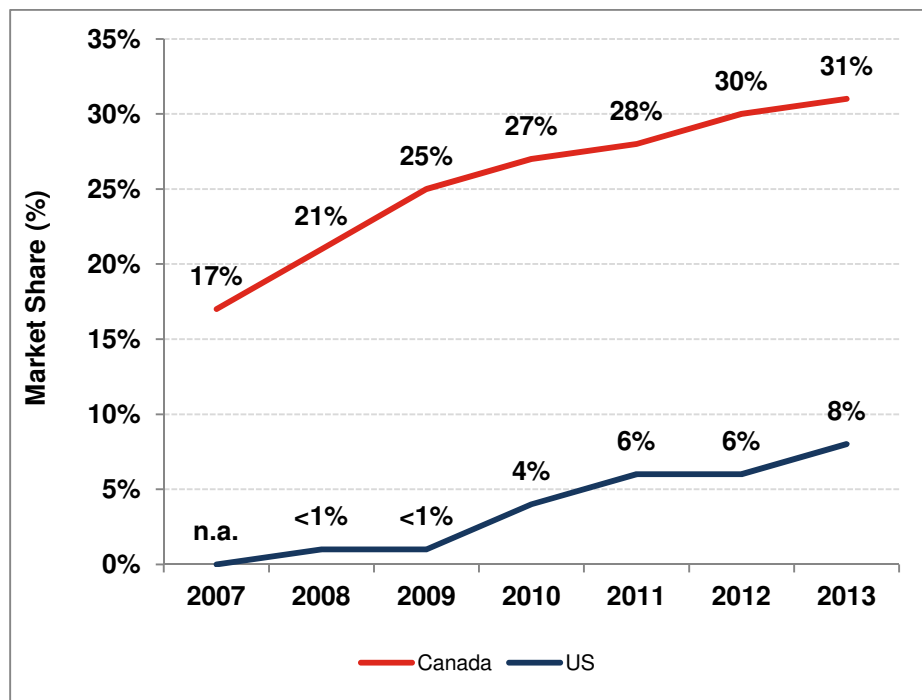
**Note:**

- (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.



Since 2007 CESTC has been able to significantly increase both its US and Canadian market share in the drilling and completion fluids space as depicted in the charts below.

*CESTC US and Canadian Drilling & Completion Fluids Market Share*



Source: CESTC

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”.

Advanced fluids and chemistries are required during the drilling process for most oil and natural wells. 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 both drilling and completion fluids can provide, Suppliers that have the technical expertise, the experience and the product offering to provide optimal drilling and completion fluid systems can present a compelling value proposition to exploration and production entities.

#### *Drilling Activity*

On-shore 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 over the last half of 2012 and the BHI average rig count for 2012 trended down slightly to 1,874. In 2013, the BHI average active rig count was 1,705, down 9% from 2012 and was flat for most of the year. Oil and natural gas liquids focused drilling accounted for over 1,300 of the 1,705 active drilling rigs in 2013 as natural gas drilling activity was at its lowest level since 1999.

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 15% to 353 as a result of the same factors mentioned above that impacted the US. For 2013, and consistent with the trend noted in the US, the average monthly rig count for the WCSB fell 4% in the year to 339. Partially offsetting this decline in Canadian rig count has been the increase in horizontal wells drilled and a commensurate increase in total meters drilled.

Management believes that activity levels in WCSB to increase moderately in the next year due to the recent stability witnessed in crude oil pricing, the narrowing of Canadian crude oil price differentials, sustained improvement in access to funding for most Operators, and the modest increase in LNG export related drilling being performed in northeast British Columbia. Management expects that onshore US rig counts are expected to also increase moderately over the course of the next year as numerous Operators have expanded their capital budgets year over year.

Operators in both the US and the WCSB continue to direct capital to resource plays that are often drilled deeper and horizontally, and have longer life reserves and production. 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. In addition, based on the current price of oil versus natural gas, capital and resources have directed away from lean natural gas to either liquids rich natural gas or oil focused drilling activity. As the chart for the WCSB below illustrates, in 2013, 69% of the active drilling rigs in the WCSB were drilling for oil versus only 29% for 2009. 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.

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 drilling related expertise and solutions are focused primarily at 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, 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 cost effective oil and natural gas services becomes increasingly important. In particular, the 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/Steam Assisted Gravity Drainage*

Steam Assisted Gravity Drainage (“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, Canada.

### *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 drilling and completions fluids and related services.

Crude oil prices have been relatively robust over the past few years but at times are volatile 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 2008-2013. This trend is due primarily to the increased oil output from oilsands development and the fact that US and Canadian Operators have focused their efforts on drilling horizontal oil wells into several newly established resource plays.

Contingent on overall drilling activity levels, Management expects the demand for the Corporation’s drilling and completion fluid services to continue to grow steadily over time as Operators continue to develop the oilsands or explore for and develop new resource plays with horizontal drilling, and in doing so utilize more complex drilling and completion fluids. As Operators continue to explore and develop new resource plays, innovation will be a key element to growth in the drilling and completion fluids business as each new resource play requires new drilling fluid systems to be developed that perform in the specific reservoir characteristics.

### *Seasonality*

Drilling and well completion 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 and well completion cycle can generally be separated into four time periods:

1. *Mid-November through mid-March* – winter drilling season; drilling and completion 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 and completion 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 and completion 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 and completion activity is low to medium as Operators are finishing off their summer and fall drilling programs and preparing for the winter drilling season.

The Corporation's expansion into the US and into the production and specialty chemicals business has helped mitigate some of the historical effects of seasonality on the drilling and completion 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 came from the US operations. Management anticipates that the US business will continue to be a larger revenue contributor in 2014 than the Canadian business.

### **Industry Factors Impacting the Production and Specialty Chemicals Business**

Through the establishment of PureChem and with 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 other Suppliers 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 generally not a cyclical business as production and specialty chemicals are typically sold to Operators, Downstream Operators and other Suppliers to support the continuous production, refining and transport needs of their respective operations.

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

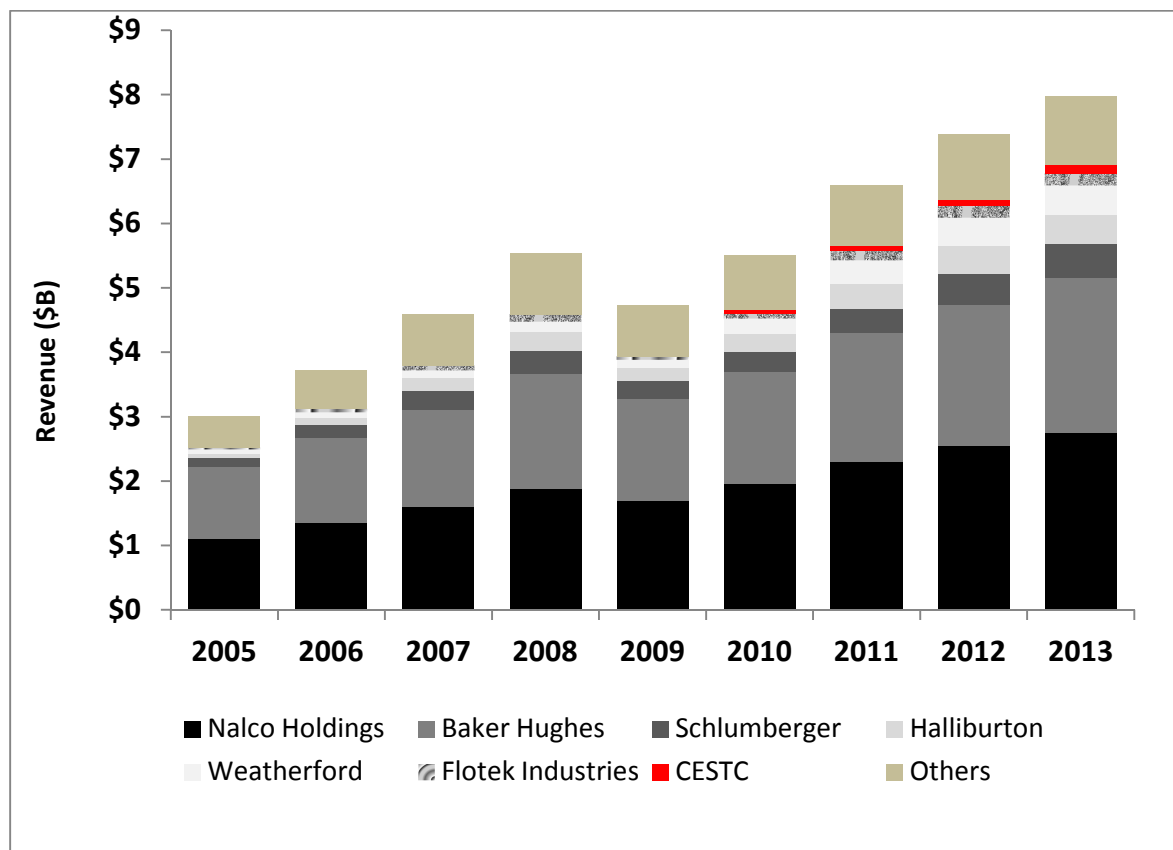
Production and specialty chemicals are used once a well bore starts to produce in order to maximize production levels and to extend the life and economics of both the wellbore and the equipment at the well head that is required to enable the well to produce. Key products that are sold to the Operator include corrosion inhibitors, demulsifiers, H<sub>2</sub>S scavengers, paraffin control products, surfactants, biocides and scale inhibitors. Production and specialty chemicals are more intensively used in the production of oil or natural gas liquids versus lean gas production.

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<sub>2</sub>S 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. With oil production rising in the NAM associated water production has increased as well. In addition, in general as oil wells age the percentage of the produced fluid that is water versus hydrocarbon generally rises often 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, CO<sub>2</sub> 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 NAM 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 (Baker Hughes Inc. ticker: BHI:US) and Ecolab Inc.'s subsidiary Nalco Holdings (Ecolab Inc. ticker: ECL:US) Nalco Holdings (post its acquisition of Champion Technologies in 2013), accounting for approximately 64% of the global market. In North America, CESTC believes it is in a position to compete with these industry majors as, CESTC believes all of the "other" North American competitors in the marketplace 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 the Corporation is in with a new and under-utilized production and laboratory facility in Sterling KS, 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 and CESTC

#### Trends - Production and Specialty Chemicals – Fracturing and Stimulation

Fracturing 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 well's production.

There are a number of trends driving growth in the use of production and specialty chemicals for fracturing 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, drag reduction, 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<sub>2</sub>S 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 cyclicalities 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.

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, vertical integration 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:

#### *Drilling and Completion Fluids*

The Canadian Energy Services, MMM, AES, and AES Permian brands are focused on the design and implementation of drilling and completion fluids systems for oil and gas producers throughout the NAM. CESTC earns revenue when it sells a drilling fluid system to 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.

#### *Production and Specialty Chemicals*

The Corporation's JACAM and PureChem production specialty chemicals brands operate 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 Corporation's various drilling fluids business and designs, blends, and sells fracture stimulation and production chemicals for oil and gas producers in the WCSB.

Two complimentary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB.

EQUAL is CES' transport division, providing its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work in the WCSB. EQUAL transports and handles oilfield produced fluids and supports the oilfield chemical business by hauling, handling, managing and warehousing products. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

#### *Proprietary and Patented Solutions*

The Corporation's technically advanced consumable 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 consumable 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.

There are currently 43 patents issued to the Corporation in multiple jurisdictions that serve to maintain and protect our competitive position in the oilfield chemicals marketplace. There are also currently 12 patents pending primarily relating to new drilling fluid systems and new production and specialty chemicals products internally developed by CESTC.

A detailed summary of some of the Corporation's key suite of technically advanced consumable chemical solutions, many of which are proprietary or patented, consists of the following:

<b>Product</b>	<b>Description of Application</b>	<b>Function</b>
Seal-AX <sup>TM</sup>	<ul style="list-style-type: none"> <li>• Medium/deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Provides unique method of reducing seepage and fighting total losses of drilling fluids while drilling in oil-based and water-based muds</li> </ul>
Polarbond <sup>TM</sup>	<ul style="list-style-type: none"> <li>• Medium/deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Water based shale inhibitor and friction reducing agent</li> </ul>
ABS40 <sup>TM</sup>	<ul style="list-style-type: none"> <li>• Vertical/deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Specialized environmentally friendly synthetic oil based mud system</li> </ul>
Cotton Seal <sup>TM</sup>	<ul style="list-style-type: none"> <li>• Vertical/deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Whole mud loss agent and seepage loss agent for oil based mud systems</li> </ul>
Enerdrill	<ul style="list-style-type: none"> <li>• Deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Ultra light weight synthetic oil based fluid</li> <li>• Enhances rate of penetration in deep, highly consolidated formations being drilled horizontally</li> </ul>
Bond Log Plus	<ul style="list-style-type: none"> <li>• SAGD drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Enhances quality and integrity of cement jobs in build interval of well</li> </ul>
PureStar	<ul style="list-style-type: none"> <li>• Deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Environmentally compatible salt free synthetic oil based mud system</li> </ul>
Envirobond	<ul style="list-style-type: none"> <li>• Vertical/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced water-based shale inhibitor</li> <li>• Inhibits hydration and migration of fine solids, clays and shales</li> <li>• Prevents damage to heavy oil production zone</li> <li>• Controls mud density</li> </ul>

Product	Description of Application	Function
Liquidrill <sup>TM</sup>	<ul style="list-style-type: none"> <li>• Horizontal</li> <li>• Heavy oil</li> <li>• Long reach lateral sections</li> <li>• Long interval sections</li> <li>• SAGD</li> <li>• Multi-lateral horizontal wells</li> <li>• Coalbed methane</li> </ul>	<ul style="list-style-type: none"> <li>• Clay-free polymer mud system</li> <li>• Controls fluid loss</li> <li>• Proven in many multi-hole projects in high risk areas for shallow vertical depths and long reach lateral sections</li> <li>• Non-damaging water-based drilling fluid</li> </ul>
Invert/Ecovert	<ul style="list-style-type: none"> <li>• Deep/vertical/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Hydrocarbon based</li> <li>• Maintains stability in highly deviated wellbores</li> <li>• Allows pipe to be tripped without restriction</li> </ul>
Enerclear	<ul style="list-style-type: none"> <li>• Medium and deep/horizontal drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Weighted salt based fluid for increased drill bit life and faster rate of penetration</li> <li>• System has inhibitive qualities</li> </ul>
Liquislide Salt	<ul style="list-style-type: none"> <li>• Medium and deep/horizontal drilling fluid</li> <li>• SAGD and heavy oil drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Provides enhanced lubricity to oil based mud, salt and water based systems</li> </ul>
Tarbreak and Tarbreak #2	<ul style="list-style-type: none"> <li>• SAGD drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces adhesiveness of bitumen</li> <li>• Enables drilling by reducing viscosity</li> </ul>
Poly-Core	<ul style="list-style-type: none"> <li>• SAGD drilling fluid</li> </ul>	<ul style="list-style-type: none"> <li>• Core fluid for bitumen reservoirs</li> <li>• Oilsands delineation drilling</li> </ul>
Fracturing Additives	<ul style="list-style-type: none"> <li>• Water based Gellants</li> <li>• Breakers</li> <li>• PH Control</li> <li>• Clay Control</li> <li>• Flow Enhancers</li> <li>• Biocides</li> <li>• Cross Linkers</li> <li>• Lubricants</li> </ul>	<ul style="list-style-type: none"> <li>• Specific chemical additives to enhance performance / efficacy of well fracturing / completions</li> </ul>
Stimulation Products	<ul style="list-style-type: none"> <li>• Acid packages</li> <li>• Surfactants</li> <li>• Solvent packages</li> <li>• Organic acid packages</li> </ul>	<ul style="list-style-type: none"> <li>• Restores and/or increases production from wells</li> </ul>
Corrosion Control	<ul style="list-style-type: none"> <li>• Acid gas corrosion protection</li> <li>• Waterflood corrosion inhibitor</li> <li>• Flowline corrosion inhibitor</li> <li>• Pipeline corrosion inhibitor</li> <li>• Downhole corrosion inhibitor</li> <li>• Combination products</li> </ul>	<ul style="list-style-type: none"> <li>• Control of downhole, plant and pipeline corrosion issues</li> <li>• Specialize in severe corrosion environments</li> </ul>
Paraffin & Asphaltene	<ul style="list-style-type: none"> <li>• Control the many problems associated with paraffin and asphaltene deposition in oil and natural gas production</li> <li>• Pour point depressants</li> <li>• Crystal modifiers</li> <li>• Dispersants</li> <li>• Solvents</li> <li>• Asphaltene dispersants for</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the efficiency of the production process</li> <li>• Reduces operating costs</li> </ul>



Product	Description of Application	Function
	natural gas and oil	
Scale Inhibitors	<ul style="list-style-type: none"> <li>Controls the deposition of all forms of carbonate and sulfate scale</li> <li>Controls scale deposition in downhole equipment and production facility</li> </ul>	<ul style="list-style-type: none"> <li>Maintains production of wells</li> <li>Reduces downtime and lost production</li> <li>Reduces operating costs</li> </ul>
Water Treatment	<ul style="list-style-type: none"> <li>Chemicals for removing hydrocarbon residue from disposal water</li> <li>Flocculants for solids removal</li> <li>Sand control</li> </ul>	<ul style="list-style-type: none"> <li>Water quality</li> </ul>
Emulsion Breakers	<ul style="list-style-type: none"> <li>Resolve oil and water emulsions occurring during crude oil production and processing</li> <li>Assist in the clarification of produced water</li> </ul>	<ul style="list-style-type: none"> <li>Separate oil from emulsion</li> <li>Clean water from emulsion and ready for disposal</li> <li>Reduces operating costs</li> </ul>
Foamers & Defoamers	<ul style="list-style-type: none"> <li>Foamers from removing H<sub>2</sub>O from natural gas wells</li> <li>Defoamers for alleviating foaming in oil and water systems</li> </ul>	<ul style="list-style-type: none"> <li>Increase the efficiency of the production process</li> </ul>
H <sub>2</sub> S Scavengers	<ul style="list-style-type: none"> <li>Removal of H<sub>2</sub>S from natural gas and hydrocarbon streams</li> </ul>	<ul style="list-style-type: none"> <li>Ensures pipeline and specification natural gas and hydrocarbons</li> <li>Ensures rail specification oil</li> <li>Safety</li> </ul>
Salt Inhibitors and Desalters	<ul style="list-style-type: none"> <li>Reduces the formation of salt in the production process</li> <li>Desalters remove excess salt from oil</li> </ul>	<ul style="list-style-type: none"> <li>Reduces downtime of wells and lost production</li> </ul>
Hydrate Inhibitors Breakers	<ul style="list-style-type: none"> <li>Designed to control the formation of gas hydrates in pipelines</li> <li>Breakers to remove hydrates after formation</li> </ul>	<ul style="list-style-type: none"> <li>Reduces downtime of wells and lost production</li> </ul>
Anti-Foulants	<ul style="list-style-type: none"> <li>Preventing asphaltene deposition in process equipment</li> </ul>	<ul style="list-style-type: none"> <li>Efficient facility operation</li> <li>Reduces downtime</li> </ul>
Biocides	<ul style="list-style-type: none"> <li>Control anaerobic and aerobic bacteria for water injection, produced-water and cooling-water systems</li> </ul>	<ul style="list-style-type: none"> <li>Water quality maintenance</li> </ul>
Gas Processing Chemicals	<ul style="list-style-type: none"> <li>Dehydration</li> <li>Heat transfer</li> <li>Defoamers</li> <li>Hydrate control</li> </ul>	<ul style="list-style-type: none"> <li>Natural gas plant processing efficiencies</li> </ul>

## **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 as well as into the pipeline and mid-stream markets. On a smaller scale, the Corporation also wholesales its drilling and completion fluids and its production and specialty chemicals to other oilfield service providers.

The Corporation's business is based in large part on strong client relationships. The Corporation has a well-established client base of approximately 1,100 Operators, Downstream Operators, Suppliers and industrial customers having operations throughout western Canada and in the US. The top five clients of the Corporation accounted for approximately 33% of its revenues for the year ended December 31, 2013, with one large independent Operator accounting for approximately 16%.

The Corporation markets its technical expertise and services to its broad client base by emphasizing the historical successes of its products, its technologies, and the technical expertise and experience of its personnel. Larger, sophisticated clients generally tender bids for services or approve prime vendors through sales and technical presentations and 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 clients, Suppliers and drilling and completion engineering firms tend to rely on continual technical support, professional support and track records of the service provider.

## **Competition**

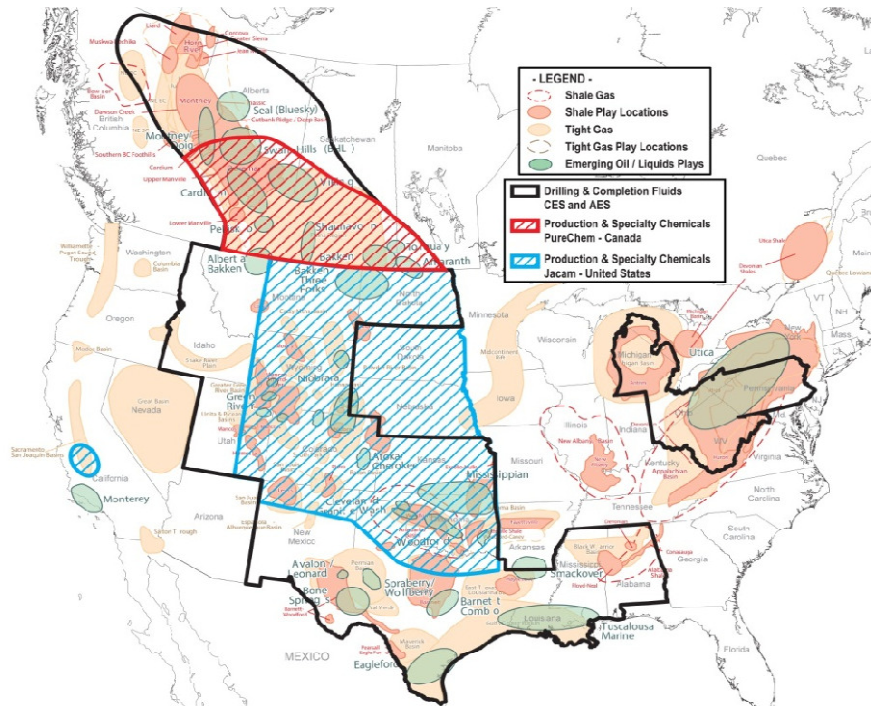
The drilling and completion fluids business is competitive. Four large integrated oilfield service companies control a broad majority of the world-wide drilling fluids marketplace. Drilling and completion fluid companies compete by focusing their efforts on the price of materials, quality of product, technological advantages, and the knowledge and technical expertise of management and field personnel. Management believes that the Corporation's specialty drilling and completion 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 and completion fluid systems.

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 two large conglomerates that control approximately 64% 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 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 and completion 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 and completion fluids business. 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, where legacy hydrocarbon production exists or where an industrial or infrastructure related sales opportunity exists.

Below is a map indicating where CESTC and its consumable chemical solution divisions operate.



## 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 and AES Permian combined have operations in thirteen US states that are serviced with eight owned warehouses located in North Dakota, Oklahoma, Pennsylvania and Texas and rented stock point facilities located in Louisiana, New Mexico, 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 seventeen owned warehouses located in Kansas, North Dakota, Colorado, 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 a parcel of raw land in Texas.

SWP has a long term lease for its barite grinding facility at the Port of Corpus Christi, Texas. Currently the construction of the barite grinding facility is in progress and the estimated completion of the facility is expected in mid-2014.

### **Personnel**

As at December 31, 2013, the Corporation, together with its subsidiaries, employed 1,192 employees and retained the services of approximately 73 consultants. As at March 1, 2014, the Corporation, together with its subsidiaries, employed 1,213 employees and retained the services of approximately 57 consultants.

### **Procurement**

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 from 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, Downstream Operators and Suppliers 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 the 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.

#### *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. Other recent vertical integration initiatives include the current

construction of the barite grinding facility at the Port of Corpus Christi, Texas by SWP and the construction of an organo clay plant in Sterling, Kansas that will manufacture organo clay which is a key input in invert or oil based drilling fluid systems.

#### *Experienced and Committed Management and Professional Team*

The Corporation has been successful in attracting and retaining talented professionals. The average experience of Management exceeds 25 years. Management's interests are aligned with those of the Corporation and Shareholders through their holding of approximately 21% of the outstanding Common Shares. See "Directors and Officers", "Description of Capital Structure" and "Escrowed Securities".

#### *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 and completion 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 professionals 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 Business of the Corporation – Operating Risks and Insurance".

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Common Shares**

CESTC is authorized to issue an unlimited number of 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. As at the date hereof, there were 67,274,067 Common Shares outstanding.

### **Preferred Shares**

CESTC is authorized to issue an unlimited number of preferred shares ("**Preferred Shares**"), issuable in series. 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.

### **Senior Notes**

CESTC has \$225.0 million in principal amount of Senior Notes outstanding. The Senior Notes bear interest at a rate of 7.375% and are due April 17, 2020. Interest is payable on the Senior Notes semi-annually on April 17<sup>th</sup> and October 17<sup>th</sup>. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Corporation's current and future subsidiaries.

The Senior Notes were issued pursuant to the terms of a trust indenture dated April 17, 2013 among Computershare Trust Company of Canada, as trustee, CESTC and each material subsidiary of CESTC as a guarantor of CESTC's obligations thereunder (the "**Senior Notes Indenture**").

The Senior Notes Indenture contains the terms and provisions governing the Senior Notes, including covenants respecting limitations on restricted payments, limitations on additional indebtedness, limitations on liens, limitations on transactions with affiliates, limitations on asset sales, limitations on conduct of business, provision of financial information, limitations on amalgamations, mergers and consolidations and designation of restricted and unrestricted subsidiaries.

The Senior Notes Indenture also provides: (i) for the early redemption of the Senior Notes by CESTC, subject to the payment of redemption premiums and prices set out in the Senior Notes Indenture; and (ii) that, in the event of a change of control of CESTC, each holder of Senior Notes will have the right to require that CESTC purchase all or a portion of such holder's notes at a purchase price in cash equal to 101% of the principal amount of such notes plus accrued and unpaid interest.

A complete copy of the Senior Notes Indenture may be found under CESTC's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Shareholder Rights Plan**

CESTC has adopted a shareholder rights plan (the "**Shareholder Rights Plan**") with an effective date of June 30, 2013. The Shareholder Rights Plan was approved by the Shareholders at the annual general and special meeting of the Shareholders held on June 20, 2013. The Shareholder Rights Plan must be re-approved by the Shareholders at every third annual meeting of the Shareholders following the effective date.

The objectives of the Shareholder Rights Plan are to ensure, to the extent possible, that all Shareholders are treated equally and fairly in connection with any take-over bid or similar proposal to acquire Common Shares. The Shareholder Rights Plan, under which Computershare Trust Company of Canada acts as rights agent, generally provides that, following the acquisition by any person or entity of 20% or more of the issued and outstanding Common Shares (except pursuant to certain permitted or excepted transactions) and upon the occurrence of certain other events, each holder of Common Shares, other than such acquiring person or entity, shall be entitled to acquire Common Shares at a discounted price. A completed copy of the Shareholder Rights Plan was filed on June 25, 2013 as a "Security Holder Document" on under CESTC's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **DIVIDEND HISTORY**

The Board of Directors has the discretion to determine if and when dividends are declared and the amount that is paid.

Through the course of the year, monthly dividends declared as a proportion of net income and cash flow from operations will vary significantly based on the activity levels of the 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.

On June 20, 2013, the Shareholders approved a stock dividend program and a stock settled director fee program. The stock dividend program provides Shareholders the opportunity to receive their dividend payments in the form of Common Shares. The stock settled director fee program provides directors of the Corporation the opportunity to receive their director fees in the form of Common Shares. The number of Common Shares issued to settle the Corporation's obligations under both of these programs is calculated using the five day volume weighted average share price prior to the payment date of the applicable dividend or director fee.

The following tables set forth the dividends declared by CESTC on Common Shares during the years ended December 31, 2011, December 31, 2012, and December 31, 2013:

<b>Dividend Record Date</b>	<b>2011 Monthly Common Share Dividend</b>	<b>Dividend Record Date</b>	<b>2012 Monthly Common Share Dividend</b>	<b>Dividend Record Date</b>	<b>2013 Monthly Common Share Dividend</b>
January 31, 2011 <sup>(1)</sup>	\$0.100	January 31, 2012	\$0.045	January 31, 2013	\$0.055
February 28, 2011 <sup>(1)</sup>	\$0.100	February 29, 2012	\$0.045	February 28, 2013	\$0.055
March 31, 2011 <sup>(1)</sup>	\$0.120	March 30, 2012	\$0.050	March 29, 2013	\$0.055
April 30, 2011 <sup>(1)</sup>	\$0.120	April 30, 2012	\$0.050	April 30, 2013	\$0.055
May 31, 2011 <sup>(1)</sup>	\$0.120	May 31, 2012	\$0.050	May 31, 2013	\$0.055
June 30, 2011 <sup>(1)</sup>	\$0.120	June 29, 2012	\$0.050	June 28, 2013	\$0.055
July 29, 2011	\$0.040	July 31, 2012	\$0.050	July 31, 2013	\$0.055
August 31, 2011	\$0.040	August 31, 2012	\$0.050	August 30, 2013	\$0.060
September 30, 2011	\$0.040	September 28, 2012	\$0.050	September 28, 2013	\$0.060
October 31, 2011	\$0.040	October 31, 2012	\$0.050	October 31, 2013	\$0.060
November 30, 2011	\$0.045	November 30, 2012	\$0.055	November 29, 2013	\$0.065
December 30, 2011	\$0.045	December 31, 2012	\$0.055	December 31, 2013	\$0.065
<b>TOTAL<sup>(2)</sup></b>	<b>\$0.476</b>	<b>TOTAL</b>	<b>\$0.600</b>	<b>TOTAL</b>	<b>\$0.695</b>

**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 year ended 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, 2014, the Partnership and AES are indebted to its lenders under the Senior Facility. Principal and interest payable under the Senior Facility have priority over distributions from the Partnership to CESTC, which in turn could affect dividends payable to Shareholders. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Senior Facility impose certain restrictive covenants on the Partnership that may affect the payment of distributions.

CESTC has \$225.0 million in principal amount of Senior Notes outstanding. The Senior Notes Indenture contains detailed restrictive covenants setting out the circumstances, including the satisfaction of certain financial ratios, in which CESTC is permitted to make dividend payments to its Shareholders. The Senior Notes Indenture would prohibit CESTC from paying any dividend not in compliance with the provisions of the Senior Notes Indenture and the necessity of complying with such provisions may restrict CESTC from paying dividends from time to time. A complete copy of the Senior Notes Indenture may be found under CESTC's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

See "Risk Factors – Risks Relating to Financing, Debt, Access to Capital, Liquidity and Capital Markets – Debt Service".

### CREDIT RATINGS

Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities. The credit ratings assigned by the rating agencies are not recommendations to purchase, hold or sell the securities, as such ratings do not comment as to market price or suitability for a particular investor. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant. A reduction in the Corporation's current corporate credit rating and / or on its senior unsecured notes by its rating agencies or a negative change in the Corporation's ratings outlook could adversely affect the Corporation's cost of financing and its access to sources of liquidity and capital. See "Risk Factors – Risks Relating to Financing, Debt, Access to Capital, Liquidity and Capital Markets – Access to Current and Additional Financing".

The following table outlines the most recent credit ratings received by the Corporation:

	<b>Standard &amp; Poor's Ratings Services ("S&amp;P")</b>	<b>DBRS Limited ("DBRS")</b>
Corporate Credit Rating	B	B (high)
Long-Term Issue Credit Rating (Canadian Energy Services & Technology Corp. - Senior Unsecured Notes)	B	B (high)
Outlook	Stable	Stable

Both S&P's and DBRS' corporate credit ratings are forward-looking opinions about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. The corporate credit rating is an opinion of the ability of the issuer to honour long-term senior unsecured financial obligations and contracts. Long-term issue credit ratings are intended to provide an independent measure of the credit quality of the obligor's long-term debt.

S&P's corporate credit ratings and long-term issue credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such obligors or obligations rated. A credit rating of B by S&P is within the sixth highest of ten categories and indicates that the obligor/obligation is more vulnerable than the obligors/obligations in higher-rated categories, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within the major rating categories. The outlook assesses the potential direction of a long-term credit rating over the intermediate term. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. The "stable" rating outlook means that the rating is not likely to change.

DBRS rates long-term debt instruments by rating categories ranging from “AAA” to “C”, which represents the range from highest to lowest quality of such securities rated. All rating categories other than AAA and C also contain subcategories “(high)” and “(low)”. The absence of either a “(high)” or “(low)” designation indicates the rating is in the middle of the category. A rating of B (high) is within the sixth highest of nine categories and is characterized by DBRS to be highly speculative and there is a high level of uncertainty as to the capacity of the obligor to meet financial obligations

The Corporation has paid each of S&P and DBRS their customary fees in connection with the provision of the above credit ratings. CESTC has not made any payments to S&P and DBRS unrelated to the provision of such ratings.

## 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, 2013:

2013			
Period	Price Range (\$)		Trading Volume
	High	Low	
January	12.02	10.55	1,275,718
February	11.79	10.80	1,154,733
March	12.91	10.65	6,359,730
April	12.50	11.52	1,864,923
May	15.31	12.25	3,823,239
June	16.75	14.85	4,327,852
July	18.62	15.23	4,708,826
August	18.93	16.97	4,289,109
September	19.11	16.95	6,343,264
October	18.81	16.53	3,700,658
November	21.32	17.35	4,276,775
December	23.53	20.97	2,795,005

## 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, 2014.

Designation of Class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class <sup>(5)</sup>
Common Shares	3,636,364 Common Shares <sup>(1)</sup>	5.4%
Common Shares	838,076 Common Shares <sup>(2)</sup>	1.3%
Common Shares	324,562 Common Shares <sup>(3)</sup>	0.5%
Common Shares	251,118 Common Shares <sup>(4)</sup>	0.4%

### Notes:

- (1) The 3,636,364 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 the original 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.

- (2) The 838,076 Common Shares are held by the Escrow Agent in accordance with the terms of the AES Permian Escrow Agreement pursuant to the AES Permian Acquisition. The AES Permian Escrow Agreement provides that certificates representing 838,076 Common Shares held in escrow pursuant to the AES Permian Escrow Agreement will be released to Venture Mud as to 1/3 on July 15, 2014, 1/3 on July 15, 2015 and 1/3 on July 15, 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 251,118 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 December 31, 2013, 1/3 on December 31, 2014 and 1/3 on December 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, 2014 of 67,274,067.

## 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 <sup>(1)(2)</sup> ..... 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 Exploration Limited.
JOHN M. HOOKS <sup>(1)</sup> ..... 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 <sup>(2)</sup> ..... 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 <sup>(2)</sup> ..... 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

<b>Name and Municipality of Residence</b>	<b>Position with CESTC and the General Partner</b>	<b>Director or Officer of CESTC (and the General Partner) Since</b>	<b>Occupation during Last Five Years</b>
			December 31, 2008. Prior thereto, President and Chief Executive Officer of Canadian Fluid Systems Ltd.
BURTON J. AHRENS .....	Director New York, NY, USA	September 13, 2013	President and Chief Executive Officer of Edgehill Corporation since 1992 and former Co-Manager of USIR Capital LLC.
JAMES (JIM) G. SHERMAN .....	Director Alleyton, Texas, USA	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 from January 1, 2011 to December 2013.
JASON H. WEST .....	Director and President of JACAM Hutchinson, Kansas, USA	March 7, 2013	President of JACAM Chemicals since 2009. Prior thereto, VP and General Counsel to JACAM Chemicals from 2002 to 2009.
THOMAS J. SIMONS .....	Director and President and Chief Executive Officer Calgary, Alberta, Canada	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 Fluid Systems Inc.
KENNETH D. ZANDEE.....	Vice President, Sales and Marketing Calgary, Alberta, Canada	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 Canadian Fluid Systems Ltd.
KENNETH E. ZINGER .....	Chief Operating Officer Calgary, Alberta, Canada	January 1, 2010 (December 9, 2005)	Chief Operating Officer of the General Partner since January, 2006 and of CESTC since January 1, 2010 and President of Impact Fluid Systems Inc.
CRAIG F. NIEBOER .....	Chief Financial Officer Calgary, Alberta, Canada	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 D. WAUGH .....	Vice President Carlyle, Saskatchewan, Canada	March 7, 2013	Vice President of General Partner and CESTC since March 7, 2013. Prior

<b>Name and Municipality of Residence</b>	<b>Position with CESTC and the General Partner</b>	<b>Director or Officer of CESTC (and the General Partner) Since</b>	<b>Occupation during Last Five Years</b>
			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.
JAMES M. PASIEKA ..... Calgary, Alberta, Canada	Corporate Secretary	January 20, 2014	Partner of the national law firm McCarthy Tetrault LLP since September 2013. Prior thereto, partner of the national law firm Heenan Blaikie LLP from 2001 to August 2013.

**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**

As a group, the directors and executive officers of CESTC beneficially own, control or direct, directly or indirectly, 8,780,935 Common Shares, representing approximately 13% of the outstanding Common Shares.

**Corporate Cease Trade Orders or Bankruptcies**

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

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

**Personal Bankruptcies**

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

## **Penalties and Sanctions**

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

## **Conflicts of Interest**

Certain directors of CESTC are associated with other companies or entities, including entities engaged in the oil and natural gas industry and the oilfield services business, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with CESTC are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of CESTC. See “Risk Factors – Other 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, 2013. 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 Business of the Corporation**

#### *Volatility of Industry Activity and Oil and Natural Gas Prices*

The success of the Corporation’s business depends on the demand, pricing and terms for oilfield services, including drilling fluid systems, production and specialty chemicals, trucking and transportation services, and environmental waste management. These in turn are dependent 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.

The level of oil and natural gas industry activity is influenced by numerous factors over which the Corporation has no control. The primary such factor is prevailing oil and natural gas prices. Other factors include 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; prevailing royalty rates, fiscal regimes, and regulatory requirements; available pipeline and other oil and natural gas transportation and processing capacity; prevailing 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. 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.

### *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 and product offerings will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees including drilling fluid technicians, chemists, production and specialty chemical experts 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.

### *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 33% of its revenue for the year ended December 31, 2013, with one large Operator accounting for approximately 16%. 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.

### *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 and specialty 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 oilfield chemistry market include the reliability and performance of the recommended and applied chemistries and programs, service quality delivered, technical knowledge and experience, the price of materials, capabilities of research and development teams, 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.

### *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.

### *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 and completion fluids, production and specialty chemical solutions 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.

### *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.

### *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.

### *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 the demand for all oilfield chemistries, 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.

#### *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 emission of greenhouse gases, the operation of equipment used in its operations, the disposal of fluids and other oilfield chemistries 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, including those relating to the emission of greenhouse gases, 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.

### *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.

### *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. Although on the drilling and well service side of the business the aforementioned 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 as such 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, 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.

Additionally, even though the Corporation maintains insurance coverage, 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 all 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.

#### *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.

#### **Risks Relating to Past and Future Transactions**

##### *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 with respect to the Conversion Transaction, 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 transactions and any acquired businesses and assets. 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.

#### *Tax Related Risks Associated with the Conversion Transaction*

The steps pursuant to which the Conversion Transaction was effected were structured to be tax deferred to the Partnership and its 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 its unitholders may be materially different than the tax consequences contemplated. 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 the Corporation prior to the Conversion Transaction or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of 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.

#### **Risks Related to Financing, Debt, Access to Capital, Liquidity and Capital Markets**

##### *Access to Current and Additional Financing*

The Corporation's ability to access its Senior Facility is directly dependent on, among other factors, certain financial ratios and other restrictive covenants. A breach of any of these covenants, which may be affected by events beyond the Corporation's control, could constitute an event of default which, if not cured or waived, could result in the amounts outstanding on the credit facility to become due and payable immediately. In addition, the Corporation's Senior Facility may, from time to time, impose operating and financial restrictions on the Corporation that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, or disposition of assets, among others.

The Corporation may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, to repay existing borrowings or to undertake acquisitions or other business combination transactions. The Corporation may, from time to time, have restricted access to capital and increased borrowing costs. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### *Debt Service*

The Corporation is indebted to its lenders under the Senior Facility. Principal and interest payable under the Senior Facility have priority over dividends declared on the Common Shares. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Senior Facility impose certain restrictive covenants that may affect the ability of the Corporation to pay dividends.

The Senior Notes Indenture contains detailed restrictive covenants setting out the circumstances, including the satisfaction of certain financial ratios, in which the Corporation is permitted to make dividend payments to its Shareholders. The Senior Notes Indenture would prohibit the Corporation from paying any dividend not in compliance with the provisions of the Senior Notes Indenture and the necessity of complying with such provisions may restrict the Corporation from paying dividends from time to time.

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

There can be no assurance that the amounts available under the Senior 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.

### *Capital Markets*

The Corporation, along with all participants in the oil and gas and oil and gas service industries, may, from time to time, have restricted access to capital and increased borrowing costs. 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, 2013, the Corporation had approximately \$66.0 million of unused credit available under its Senior 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.

### *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.

### *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 its business, financial condition, results of operations and cash flow and therefore on dividends declared on the Common Shares.

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

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

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

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

#### *Leverage and Restrictive Covenants*

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

flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The lenders under the Senior Facility 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 Senior Facility could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Senior Facility were to be accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay in full that indebtedness or that the Corporation would be able to arrange suitable replacement financing.

The Senior Notes Indenture contains the terms and provisions governing the Senior Notes, including covenants respecting limitations on restricted payments, limitations on additional indebtedness, limitations on liens, limitations on transactions with affiliates, limitations on asset sales, limitations on conduct of business, provision of financial information, limitations on amalgamations, mergers and consolidations and designation of restricted and unrestricted subsidiaries. Any breach of such covenants by the Corporation would constitute an event of default that may accelerate the repayment of the Senior Notes. If the repayment of the Senior Notes was accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay in full that indebtedness or that the Corporation would be able to arrange suitable financing to facilitate repayment.

#### *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.

### **Other Risks**

#### *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.

### *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.

### *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.

## **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**

There are no legal proceedings involving claims for damages in an amount exceeding 10% of CESTC's current assets to which CESTC is or was a party or in respect of which any of property is or was subject during the year ended December 31, 2013, nor are there any such proceedings known to Management to be contemplated.

## **MATERIAL CONTRACTS**

Other than in the ordinary course of the Corporation's business or as set out below, 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.



CESTC has \$225.0 million in principal amount of Senior Notes outstanding. The Senior Notes Indenture remains in effect and is a material contract to CESTC. See “Description of Capital Structure – Senior Notes” for further information.

#### **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](http://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, is contained in the Corporation’s information circular dated May 16, 2013 for the annual general and special 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, 2013, and the accompanying management’s discussion and analysis of financial conditions and results of operations dated March 13, 2014. Shareholders who wish to receive printed copies of these documents free of charge should contact the Corporation using the contact information included on the final page of this Annual Information Form.

**SCHEDULE “A”  
AUDIT COMMITTEE DISCLOSURE**

**PURSUANT TO MULTILATERAL INSTRUMENT 52-110**

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**Overview**

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

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

**The Audit Committee Charter**

The Audit Committee Charter is attached hereto as Schedule “B”.

**Composition of the Audit Committee**

The Audit Committee is comprised of four directors; Messrs. Stewart (Chair), Kitagawa, Boyer, and Ahrens, 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.

<b>Name</b>	<b>Principal Occupation and Biography</b>
D. Michael G. Stewart	Michael Stewart is the principal of the Ballinacurra Group, a privately held group of companies involved with Western Canadian energy sector investments and energy infrastructure project consulting. He also serves on the Boards of Directors of TransCanada Corporation, Pengrowth Energy Corporation, and Northpoint Resources Ltd. Prior thereto, Mr. Stewart held several positions at Westcoast Energy Inc. (Westcoast”) from 1993 to 2002 when Westcoast was acquired by Duke Energy Corporation. The positions Mr. Stewart held at Westcoast and its subsidiary and affiliate companies included Executive Vice President, Business Development of Westcoast, responsible for the development of Westcoast's power, international and major new projects; President of Westcoast Energy International Inc.;

Name	Principal Occupation and Biography
	Chairman of Westcoast Power Inc.; Chairman of the Management Committee of Maritimes & Northeast Pipeline Limited Partnership; and Co-Chief Executive Officer of Foothills Pipelines Ltd. Before joining Westcoast Mr. Stewart held a number of executive positions with companies involved in the energy, fertilizer and sulphur businesses. Mr. Stewart graduated from Queen's University with a Bachelor of Science degree 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-practicing).
Colin D. Boyer	Colin Boyer is an Independent Businessman. Mr. Boyer was, until August, 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 and has been a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta since 1976.
Kyle D. Kitagawa, CA	Kyle Kitagawa brings over 20 years experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Currently, Mr. Kitagawa serves as Chairman of Coral Hill Energy Ltd and is a Director of Zargon Oil & Gas Ltd. Prior directorships include 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.
Burton J. Ahrens	Burt Ahrens is the President of the Edgehill Corporation, a diversified venture capital company with a bias towards energy and energy-related investments. Mr. Ahrens was Co-Manager of USIR Capital LLC, an opportunistic growth-oriented hedge fund and the Chairman of Edgehill Select group, LLC, the sponsor of an umbrella trust that has registered and listed seven sub-funds on the Dublin Stock Exchange. Mr. Ahrens was a founder and President of Oil Fields Systems Corp., which in 1985 was acquired by Snyder Oil Corporation and its publicly traded affiliate, American Oil Fields, PLC. He was also Chairman of Perkins Drilling Company, then the largest drilling company in Ohio at the time of its sale in December 1980. Mr. Ahrens is or has been a director of several public and private corporations. A graduate of Cornell and Yale Law School, where he was an editor of the Yale Law Journal, Mr. Ahrens practiced law with Cravath, Swaine & Moore and was founding Senior Partner of Feit & Ahrens.

## 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, 2012, and December 31, 2013.

<b>Period Ended</b>	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit-Related Fees<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
<b>December 31, 2012</b>	\$296,974	\$28,355	\$230,902	Nil
<b>December 31, 2013</b>	\$395,759	Nil	\$1,188,960	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 (1), (2), and (3), above.

**SCHEDULE “B”  
AUDIT COMMITTEE CHARTER**

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**PART I  
ESTABLISHMENT OF COMMITTEE**

**1. Committee Purpose**

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

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

- (a) the quality and integrity of the financial statements and related disclosure of the Corporation;
- (b) compliance by the Corporation with legal and regulatory requirements that could have a material effect upon the financial position of the Corporation which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole;
- (c) the independent auditor’s qualifications and independence; and
- (d) performance of the Corporation’s independent auditor.

**2. Composition of Committee**

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

- (a) an “unrelated” and “independent” director as defined in, and for the purposes of, any applicable governance guidelines or listing standards of any stock or securities exchange upon which the securities of the Corporation are, from time to time, listed; and
- (b) an “independent” and “financially literate” director for the purposes of any applicable corporate, securities or other legislation or any rule, regulation, instrument, policy, guideline or interpretation under such legislation, including, but not limited to, National Instrument 52-110 – *Audit Committees*, promulgated under the *Securities Act* (Alberta).

**3. Appointment of Committee Members**

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

## **PART II COMMITTEE PROCEDURE**

### **4. Vacancies**

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

### **5. Committee Chair**

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

### **6. Absence of Chair**

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

### **7. Secretary of Committee**

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

### **8. Regular Meetings**

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

### **9. Special Meetings**

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

### **10. Quorum**

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

### **11. Notice of Meetings**

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

**12. Agenda**

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

**13. Delegation**

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

**14. Access**

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

**15. Attendance of Others at a Meeting**

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

**16. Procedure, Records and Reporting**

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

**17. Outside Consultants or Advisors**

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

**PART III  
MANDATE OF COMMITTEE**

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

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

The Committee shall review the independence of the independent auditor including a written report from the independent auditor delineating all relationships between the independent auditor, the Corporation and the Corporation, considering whether the advisory services performed by the independent auditor during the course of the year have affected its independence, and ensuring that no relationship or service between the independent

auditor, the Corporation and the Corporation is in existence that may affect the objectivity and independence of the auditor, or recommending appropriate action to ensure the independence of the independent auditor.

## **19. Specific Mandates**

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

- (a) Oversight in Respect of Financial Disclosure
  - (i) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:
    - A. the audited annual financial statements;
    - B. the annual information form;
    - C. the annual management's discussion and analysis;
    - D. the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant financial information respecting the Corporation;
    - E. all financial statements included in prospectuses or other offering documents;
    - F. any significant financial information contained in all prospectuses and all documents which may be incorporated by reference in a prospectus;
    - G. any significant financial information respecting the Corporation contained in a material change report, business acquisition report or press release;
  - (ii) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:
    - A. the unaudited interim financial statements of the Corporation;
    - B. the quarterly management's discussion and analysis of the Corporation;
    - C. the interim reports of the Corporation;
  - (iii) review and discuss with management:
    - A. each press release which contains significant financial information respecting the Corporation (including, without limitation, annual and interim earnings press releases) or contains earnings guidance, prior to public dissemination thereof;
    - B. the use of "pro forma" or "adjusted" non-GAAP information;
    - C. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) and in accordance with the Disclosure and Media



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

- (iv) review with management and the independent auditor the scope of the audit, in particular the independent auditor's view of the Corporation's accounting principles as applied in the financial statements in terms of disclosure quality and evaluation methods, inclusive of the clarity of the Corporation's financial disclosure and reporting, degree of conservatism or aggressiveness of the Corporation's accounting principles and underlying estimates, and other significant decisions made by management in preparing the financial disclosure and reviewed by the independent auditor;
- (v) review with management and the independent auditor major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls and procedures for financial reporting and management information systems and inquire of management and the independent auditor about significant risks and exposures to the Corporation that could significantly affect the Corporation's financial statements;
- (vi) review with management and the independent auditor, and satisfy itself as to the adequacy of the procedures that are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of those procedures;
- (vii) review with management and the independent auditor (including those of the following that are contained in any report of the independent auditor): (a) all critical accounting policies and practices to be used by the Corporation in preparing its financial statements; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of these alternative treatments, and the independent auditor's assessment of the alternatives; and (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;
- (viii) review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet transactions on the Corporation's financial statements;
- (ix) review the plans of management and the independent auditor regarding any significant changes in accounting practices or policies and the financial and accounting impact thereof;
- (x) review with management, the independent auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;
- (xi) review disclosures by the Corporation's President and Chief Executive Officer and Chief Financial Officer with respect to any required certification for the Corporation's financial statements by such individuals; and
- (xii) discuss with management the Corporation's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's financial risk assessment and financial risk management policies and insurance policies.

(b) Oversight in Respect of Legal and Regulatory Matters

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

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

- (i) consult with management on management's appointment, replacement, reassignment or dismissal of the Chief Financial Officer of the Corporation; and
- (ii) ensure the Chief Financial Officer of the Corporation and the Finance Director 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 Finance Director 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 disclosure and media policy, related party transaction policy, and insider trading policy.

## **20. Self-Evaluation**

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

## **21. Non-Exhaustive List**

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

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

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

**23. Oversight Function**

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



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