MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp. ("CES" or the "Company") for the years ended December 31, 2013 and 2012, and CES' 2013 Annual Information Form. This MD&A is dated March 13, 2014, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

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

In particular, this MD&A contains forward-looking information pertaining to the following: future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the seasonality of CES' business and anticipated reduction in exposure to the effects of spring break-up in the WCSB; the sufficiency of liquidity and capital resources to meet long-term payment obligations; management's opinion of the impact of any potential litigation or disputes; the application of critical accounting estimates and judgements; the collectability of accounts receivable; the expected range of consolidated revenue and EBTDAC; CES' ability to increase its marketshare; supply and demand for CES' products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding expansion of services in Canada and the United States; development of new technologies; expectations regarding CES' growth opportunities in Canada and the United States; the effect of the JACAM Acquisition and the AES Permian Acquisition on the Corporation; expectations regarding the performance or expansion of CES' operations; expectations regarding demand for CES' services and technology; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; fluctuations in demand for consumable fluids and chemical oilfield services; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; reassessment and audit risk associated with the Conversion and other tax filing matters; changes to the fiscal regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2013 and "Risks and Uncertainties" in this MD&A.

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

BUSINESS OF CES

CES is 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, CES' 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, CES' 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_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipeline and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H_2S.

Drilling Fluids

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

Completion & Stimulation

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

Production

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

Pipelines & Midstream

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

CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in several basins throughout the United States ("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"), and JACAM Chemicals ("JACAM").

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. 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.

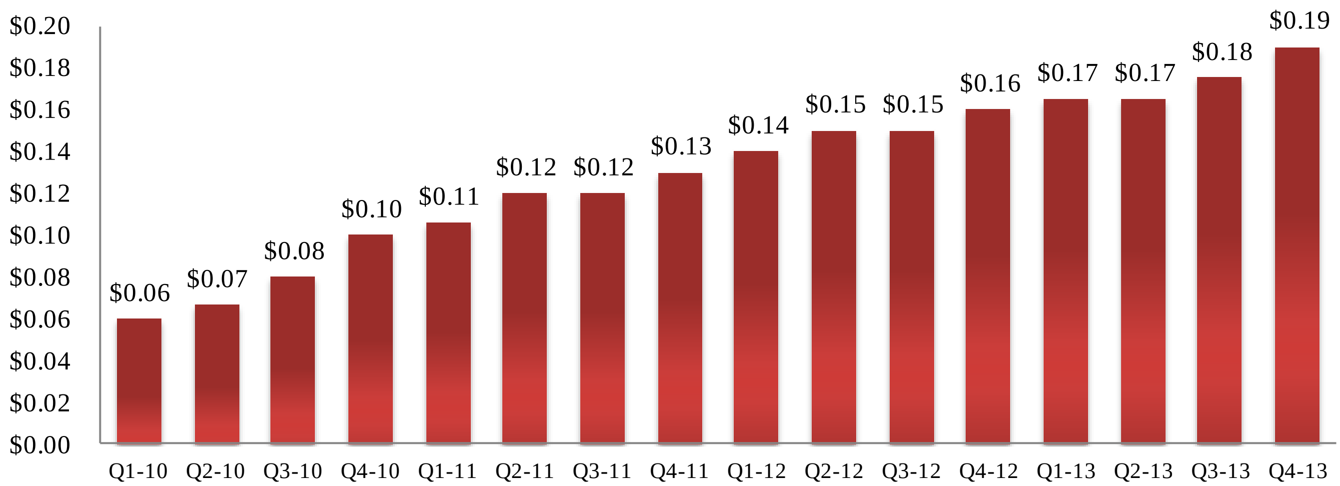
Two complimentary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. EQUAL is CES' transport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

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

CES' 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.

From the period of January 1, 2010, to December 31, 2013, the Company has increased its monthly dividend eight times from $0.02 per share to $0.065 per share, an increase of 325% over four years. Following the 2013 JACAM Acquisition and with the organic growth of the PureChem business in Canada, the Company has diversified its revenue stream and built a revenue and cash flow base in longer-term, more predictable, production and midstream markets. This increase in both scale and diversity of the Company's operations has resulted in increased certainty of future cash flows from businesses, thereby positioning CES to provide a more reliable and growing dividend stream to investors.

QUARTERLY DIVIDEND GROWTH [1]



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

NON-GAAP MEASURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures do not have a standardized meaning under IFRS and may therefore not be comparable to similar measures used by other issuers. These measures are further defined for use throughout this MD&A as follows:

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Net income	**12,837**	2,847	**37,255**	27,869
Add back (deduct):				
Depreciation in cost of sales	**4,613**	1,918	**15,084**	7,419
Depreciation and amortization in general and administrative expenses	**4,004**	1,080	**11,856**	3,878
Interest expense, net of interest income	**4,961**	775	**17,545**	3,351
Amortization of capitalized deferred financing costs	**238**	62	**720**	186
Current income tax expense	**6,516**	672	**9,179**	13,343
Deferred income tax (recovery) expense	**(1,241)**	674	**5,459**	2,678
Stock-based compensation	**4,242**	1,822	**12,535**	6,406
Unrealized foreign exchange loss	**40**	46	**2**	119
Unrealized derivative loss (gain)	**171**	114	**212**	(236)
Loss (gain) on disposal of assets	**101**	40	**(29)**	(85)
EBITDAC	**36,482**	10,050	**109,818**	64,928

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

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

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

Cash Gross Margin – represents gross margin under IFRS adjusted to exclude non-cash expenses recorded in cost of sales including depreciation as it relates to assets associated with operations and operating related activities, and gains and losses on disposal of assets. Management believes that this metric assists in determining the cash operating margin of the Company.

Cash General and Administrative Costs – represents general and administrative costs under IFRS adjusted to exclude non-cash expenses recorded in general and administrative costs such as stock-based compensation and depreciation and amortization as it relates to assets not associated with operations and operating related activities. Management believes that this metric assists in determining the cash general and administrative expenses of the Company.

Cash Interest Expense – represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the Senior Notes and the Senior Facility. Management believes that this metric assists in determining the cash interest expenses of the Company.

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended December 31,			Year Ended December 31,		
($000's, except per share amounts)	**2013**	2012	% Change	**2013**	2012	% Change
Revenue	**200,569**	95,028	111%	**662,818**	471,299	41%
Gross margin	**55,060**	21,401	157%	**174,786**	110,167	59%
Gross margin percentage of revenue	**27%**	23%		**26%**	23%	
Income before taxes	**18,112**	4,193	332%	**51,893**	43,890	18%
per share – basic	***0.27***	*0.07*	*286%*	***0.82***	*0.79*	*4%*
per share - diluted	***0.26***	*0.07*	*271%*	***0.79***	*0.76*	*4%*
Net income	**12,837**	2,847	351%	**37,255**	27,869	34%
per share – basic	***0.19***	*0.05*	*280%*	***0.59***	*0.50*	*18%*
per share - diluted	***0.18***	*0.05*	*260%*	***0.56***	*0.49*	*14%*
EBITDAC (1)	**36,482**	10,050	263%	**109,818**	64,928	69%
per share – basic	***0.55***	*0.18*	*206%*	***1.73***	*1.17*	*48%*
per share - diluted	***0.52***	*0.17*	*206%*	***1.66***	*1.13*	*47%*
Funds Flow From Operations (1)	**25,006**	8,603	191%	**83,094**	48,234	72%
per share – basic	***0.37***	*0.15*	*147%*	***1.31***	*0.87*	*51%*
per share - diluted	***0.36***	*0.15*	*140%*	***1.26***	*0.84*	*50%*
Dividends declared	**12,730**	9,029	41%	**44,319**	33,476	32%
per share	***0.19***	*0.16*	*19%*	***0.70***	*0.60*	*17%*

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

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and twelve months ended December 31, 2013, in comparison to the three and twelve months ended December 31, 2012, for CES are as follows:

- CES generated revenue of $200.6 million during the three months ended December 31, 2013, compared to $95.0 million for the three months ended December 31, 2012, an increase of $105.6 million or 111%. Revenue for the year ended December 31, 2013 totaled $662.8 million, compared to revenues for the year ended December 31, 2012 of $471.3 million (2011 – $459.3 million), representing an increase of $191.5 million or 41%. As detailed below, all facets of the business in Canada and the US have contributed to this revenue growth.

- Revenue generated in Canada for the three months ended December 31, 2013 increased by $34.8 million or 79% compared to the three months ended December 31, 2012, from $44.2 million to $79.0 million. For the twelve month period ended December 31, 2013, revenue in Canada was $242.7 million compared to revenues of $204.6 million for the twelve month period ended December 31, 2012, representing an increase of $38.1 million or 19%. The increase in revenues for both the three and twelve months ended December 31, 2013, was primarily a result of a year-over-year shift to a higher percentage of the Company's drilling fluid systems being run in both the deep basin and the oilsands, as well as an increase in drill-bit related activity resulting from increased market share year-over-year. In addition, PureChem has also contributed significantly to the increase in revenues as it continued to build-out its production and specialty chemical sales.

- Revenue generated in the US for the three months ended December 31, 2013 increased by $70.8 million or 139% compared to the three months ended December 31, 2012, from $50.8 million to $121.6 million. For the twelve month period ended December 31, 2013, revenue in the US was $420.1 million compared to revenues of $266.7 million for the twelve month period ended December 31, 2012, representing an increase of $153.4 million or 58%. This year-over-year increase for both periods is primarily a result of the JACAM Acquisition and AES Permian Acquisition, for which there are no associated revenues in the comparable periods in 2012. These acquisitions have further vertically integrated CES' business, expanded CES' product offerings across the oilfield spectrum, provided a significant platform of infrastructure and new customers across the US, and increased CES' ability to deliver technically advanced science based solutions to its customers. Also contributing to the increase in US revenues is organic growth derived from AES resulting in new work in the Rockies region, in the Eagle Ford, and in the Mid-Continent region, which has more than offset the reduced activity in the Marcellus shale region of the US.

- For the three month period ended December 31, 2013, CES recorded gross margin of $55.1 million or 27% of revenue, compared to gross margin of $21.4 million or 23% of revenue generated in the same period last year. For the twelve month period ended December 31, 2013, CES recorded gross margin of $174.8 million or 26% of revenue, compared to gross margin of $110.2 million or 23% of revenue in 2012. The increase in gross margin percentages is primarily a result of the JACAM Acquisition and the growth of the PureChem division in Canada, combined with an increase in margins at the drill-bit resulting from sales of higher-margin products. Production and specialty chemical products are generally specialized and unique solutions which result in higher gross margins. In contrast, the Company's drilling fluids product mix contains more mined materials and other commoditized products that lower the overall margin of the drilling related sales.

- EBITDAC for the three months ended December 31, 2013, was $36.5 million as compared to $10.1 million for the three months ended December 31, 2012, representing an increase of $26.4 million or 263%. CES recorded EBITDAC per share of $0.55 ($0.52 diluted) for the three months ended December 31, 2013 versus EBITDAC per share of $0.18 ($0.17 diluted) in 2012, an increase of 206% (206% diluted). For the twelve month period ended December 31, 2013, EBITDAC totalled $109.8 million as compared to $64.9 million for the twelve month period ended December 31, 2012, representing an increase of $44.9 million or 69%. Year-to-date, CES recorded EBITDAC per share of $1.73 ($1.66 diluted) versus EBITDAC per share of $1.17 ($1.13 diluted) in 2012.

- CES recorded net income of $12.8 million for the three month period ended December 31, 2013 as compared to $2.8 million in the prior year. CES recorded net income per share of $0.19 ($0.18 diluted) for the three months ended December 31, 2013 versus $0.05 ($0.05 diluted) in 2012. For the twelve month period ended December 31, 2013, CES recorded net income of $37.3 million, compared with the $27.9 million generated for the same period last year (2011 - $41.7 million). For the twelve month period ended December 31, 2013 net income per share was $0.59 ($0.56 diluted) as compared with $0.50 ($0.49 diluted) per share for the same period in 2012 (2011 –$0.76 basic ($0.74 diluted)). The respective year-over-year change in net income was positively impacted by increased revenues and a decrease in current tax expense resulting from lower taxable income and a reduction in the Company's effective tax rate following the internal re-organization that was completed in Q4 2012. This increase was partially offset by one-time general and administrative and interest expenses related to the JACAM Acquisition and AES Permian Acquisition; costs associated with financings and the internal re-organization, all of which were expensed in 2013; along with increased stock-based compensation expense and increased depreciation and amortization.

- CES continues to maintain a strong statement of financial position or "balance sheet" with undrawn credit facilities of $66.0 million and positive net working capital of $197.4 million as at December 31, 2013. CES enhanced its financial flexibility in April 2013 with the placement of $225.0 million principal amount of 7.375% Senior Notes, and the completion of a short-form prospectus offering of common shares (The "Offering") for gross proceeds of $35.0 million in August.

- During the fourth quarter of 2013, CES increased its dividend for the eighth time since January 1, 2010, resulting in monthly dividends in aggregate of $0.19 per share declared for the quarter. This compares to $0.16 per share for the comparable quarter in 2012. During the fourth quarter of 2013, the Payout Ratio averaged 48% as compared to 106% in 2012. For 2013, the Payout Ratio averaged 56%, compared to 71% in 2012.

- On March 1, 2013, CES completed the acquisition of the business assets of JACAM Chemicals Company, Inc. and its subsidiaries (the "JACAM Acquisition") in order to expand CES' full cycle oilfield consumable chemicals business in the US. JACAM designs and manufactures its products in Sterling, Kansas, which also serves as its divisional head office. JACAM's customers are predominantly oil and gas producers, but JACAM also sells products to oilfield service companies and to the pipeline industry. The financial results of JACAM are reflected in this MD&A, and accompanying financial statements, for the period subsequent to the acquisition date of March 1, 2013.

- On July 15, 2013, CES completed the acquisition of the drilling fluid business assets of Venture Mud One, L.P. ("Venture Mud") and certain additional assets from affiliates of Venture Mud (the "AES Permian Acquisition"). 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 AES Permian Acquisition expands the scale and operational capabilities of CES within the US market and provides a platform for growth in the Permian Basin.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000's, except per share amounts)	**2013**	2012	$ Change	% Change
Revenue	**200,569**	95,028	105,541	111%
Cost of sales	**145,509**	73,627	71,882	98%
Gross margin	**55,060**	21,401	33,659	157%
Gross margin percentage of revenue	**27%**	23%		
General and administrative expenses	**31,482**	16,055	15,427	96%
Finance costs	**5,466**	1,153	4,313	374%
Income before taxes	**18,112**	4,193	13,919	332%
Current income tax expense	**6,516**	672	5,844	870%
Deferred income tax (recovery) expense	**(1,241)**	674	(1,915)	(284%)
Net income	**12,837**	2,847	9,990	351%
Net income per share – basic	***0.19***	*0.05*	*0.14*	*280%*
Net income per share – diluted	***0.18***	*0.05*	*0.13*	*260%*
EBITDAC [(1)]	**36,482**	10,050	26,432	263%

Common Shares Outstanding	**2013**	2012	% Change
End of year	**67,107,128**	56,847,853	18%
Weighted average			
- basic	**66,914,549**	56,193,530	19%
- diluted	**69,577,834**	57,792,055	20%

	As at		
Financial Position ($000's)	**December 31, 2013**	December 31, 2012	% Change
Net working capital	**197,366**	114,899	72%
Total assets	**807,319**	354,642	128%
Long-term financial liabilities [(2)]	**322,766**	71,575	351%
Shareholders' equity	**360,519**	215,420	67%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Includes long-term portion of the Deferred Acquisition Consideration, Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.

	Year Ended December 31,			
($000's, except per share amounts)	**2013**	2012	$ Change	% Change
Revenue	**662,818**	471,299	191,519	41%
Cost of sales	**488,032**	361,132	126,900	35%
Gross margin	**174,786**	110,167	64,619	59%
Gross margin percentage of revenue	**26%**	23%		
General and administrative expenses	**103,861**	62,636	41,225	66%
Finance costs	**19,032**	3,641	15,391	423%
Income before taxes	**51,893**	43,890	8,003	18%
Current income tax expense	**9,179**	13,343	(4,164)	(31%)
Deferred income tax expense	**5,459**	2,678	2,781	104%
Net income	**37,255**	27,869	9,386	34%
Net income per share – basic	***0.59***	*0.50*	*0.09*	*18%*
Net income per share - diluted	***0.56***	*0.49*	*0.07*	*14%*
EBITDAC [(1)]	**109,818**	64,928	44,890	69%

Common Shares Outstanding	**2013**	2012	% Change
End of year	**67,107,128**	56,847,853	18%
Weighted average			
- basic	**63,495,340**	55,693,220	14%
- diluted	**66,040,287**	57,395,332	15%

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

Revenue and Operating Activities

CES generated gross revenue of $200.6 million during the three months ended December 31, 2013, compared to $95.0 million for the three months ended December 31, 2012, an increase of $105.6 million or 111%. Revenue for the year ended December 31, 2013, totaled $662.8 million, compared to revenues for the year ended December 31, 2012, of $471.3 million (2011 - $459.3 million), representing an increase of $191.5 million or 41%.

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

	Revenue			
	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Canada	**78,974**	44,224	**242,676**	204,561
United States	**121,595**	50,804	**420,142**	266,738
Total	**200,569**	95,028	**662,818**	471,299

Revenue generated in Canada for the three months ended December 31, 2013 increased by $34.8 million or 79% compared to the three months ended December 31, 2012, up from $44.2 million to $79.0 million. Drill-bit related activity saw an increase in work in both the deep basin and the oilsands, resulting in higher revenue per Operating Day, and PureChem continued to build-out its production and specialty chemical sales. At the drill-bit in Q4 2013, industry rig counts in Canada increased by 2% compared to Q4 2012, and despite this marginal increase in industry activity, CES' Operating Days increased by 39%. Drill-bit related Canadian Market Share increased from an estimated 26% in Q4 2012 to an estimated 35% in Q4 2013.

For the twelve month period ended December 31, 2013, revenue in Canada was $242.7 million compared to revenues of $204.6 million for the twelve month period ended December 31, 2012, representing an increase of $38.1 million or 19%. This increase was a result of the shift to a higher percentage of the Company's drilling fluid systems being run in both the deep basin and in the oilsands resulting in higher revenue per Operating Day plus additional revenue generated by both Clear and PureChem, partially offset by a decrease in revenues as a result of the reduced activity levels and customer spending witnessed in the Company's drilling fluids divisions in the first quarter of 2013. In 2013, industry rig counts in Canada decreased by 4% compared to industry rig counts during the twelve months ended December 31, 2012. Despite the declines in industry activity, CES' year-to-date Operating Days remained consistent with the twelve months ended December 31, 2012. Drill-bit-related Canadian Market Share increased from an estimated 30% in 2012 to an estimated 31% in 2013.

Revenue generated in the US for the three months ended December 31, 2013, increased by $70.8 million or 139% compared to the three months ended December 31, 2012, up from $50.8 million to $121.6 million. Revenue generated at the drill-bit was up slightly in Q4 2013 over Q4 2012 reflecting the effect of the AES Permian Acquisition offset by reduced activity levels in the Marcellus shale region, which was a major contributing factor to the declines in US industry activity outlined below. Despite the declines in industry activity, the Company's US Operating Days increased by 61% in the fourth quarter of 2013 compared to the fourth quarter of 2012. The Company's drill-bit-related US Market Share for the three months ended December 31, 2013 was approximately 8%, representing an increase from 5% for the three months ended December 31, 2012.

For the twelve month period ended December 31, 2013, revenue in the US was $420.1 million compared to revenues of $266.7 million for the twelve month period ended December 31, 2012, representing an increase of $153.4 million or 58%. The year-over-year increase is primarily as a result of the Company expanding its business in the US through the JACAM Acquisition and AES Permian Acquisition, combined with the growth of AES. Despite the declines in industry activity, the Company's US Operating Days increased by 16% for the year-to-date comparative period. Drill-bit-related US Market Share increased from an estimated 6% in 2012 to an estimated 7% in 2013. The increase is largely as a result of new work added in the US subsequent to the AES Permian Acquisition and the organic growth of AES experienced in the Rockies, Eagle Ford, and Mid Continent regions.

A summary of rig counts and Operating Days for the three and twelve months ended December 31, 2013, is as follows:

	Three Months Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	**2013**	2012	% Change
Canadian industry rig count (1)	**370**	363	2%	**339**	353	(4%)
US industry rig count (2)	**1,697**	1,767	(4%)	**1,705**	1,874	(9%)

Notes:
1 Based on the quarterly average of CAODC published monthly data for Western Canada.
2 Based on the quarterly average of Baker Hughes published land data for the United States.

	Three Months Ended December 31,			Year Ended December 31,		
	2013	2012	% Change	**2013**	2012	% Change
Canada	**12,084**	8,697	39%	**38,137**	38,139	0%
US	**13,294**	8,244	61%	**44,494**	38,469	16%
Total Operating Days (1)	**25,378**	16,941	50%	**82,631**	76,608	8%

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

For the three and twelve months ended December 31, 2013, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	**2013**	2012
Top five customers as a % of total revenue	**27%**	42%	**33%**	40%
Top customer as a % of total revenue	**13%**	15%	**16%**	16%

Cost of Sales and Gross Margin

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

For the three month period ended December 31, 2013, CES recorded gross margin of $55.1 million or 27% of revenue, compared to gross margin of $21.4 million or 23% of revenue generated in the same period last year. For the twelve month period ended December 31, 2013, CES recorded gross margin of $174.8 million or 26% of revenue, compared to gross margin of $110.2 million or 23% of revenue in 2012. In aggregate, production and specialty chemical product sales generally attract higher margins than the Company's drilling related products and services. The Company's drilling fluids product mix contains more mined materials and other commoditized products that lower the overall margin of the drilling related sales. The increase in gross margin as a percentage of revenue is primarily a result of the JACAM Acquisition in the US and the continued growth of PureChem in Canada throughout 2013, combined with an increase in margins at the drill-bit resulting from increased sales volumes being allocated over the fixed cost base. In addition, the Company has become further vertically integrated through the JACAM Acquisition and the organic growth of PureChem, resulting in improved margins on the CES manufactured products.

Depreciation, as it relates to assets associated with operations and operating related activities, and gains and losses on disposal of assets are included in cost of sales under IFRS. In order to calculate a Cash Gross Margin, these items are added back to the gross margin calculation. Cash Gross Margin is a more accurate measure of the operating contribution to CES' free cash flow.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Gross margin	**55,060**	21,401	**174,786**	110,167
as a percentage of revenue	**27%**	23%	**26%**	23%
Add back (deduct):				
Depreciation included in cost of sales	**4,613**	1,918	**15,084**	7,419
Loss (gain) on disposal of assets included in cost of sales	**101**	40	**(29)**	(85)
Cash Gross Margin (1)	**59,774**	23,359	**189,841**	117,501
as a percentage of revenue	**30%**	25%	**29%**	25%

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

General and Administrative Expenses ("G&A")

The table below details the stock-based compensation and depreciation and amortization which are included in G&A under IFRS, and are deducted in the table from total G&A in order to calculate Cash General and Administrative Costs. Cash General and Administrative Costs is a more accurate measure of the General and Administrative Expenses affecting CES' free cash flow.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
General and administrative expenses	**31,482**	16,055	**103,861**	62,636
as a percentage of revenue	**16%**	17%	**16%**	13%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	**4,242**	1,822	**12,535**	6,406
Depreciation & amortization	**4,004**	1,080	**11,856**	3,878
Cash General and Administrative Costs (1)	**23,236**	13,153	**79,470**	52,352
as a percentage of revenue	**12%**	14%	**12%**	11%

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

For the three month period ended December 31, 2013, CES recorded Cash General and Administrative Costs of $23.2 million or 12% of revenue, compared to Cash General and Administrative Costs of $13.2 million or 14% of revenue generated in the same period last year. For the twelve month period ended December 31, 2013, CES recorded Cash General and Administrative Costs of $79.5 million or 12% of revenue, compared to Cash General and Administrative Costs of $52.4 million or 11% of revenue in 2012. The increase in Cash General and Administrative Costs on an absolute basis is primarily due to general and administrative expenses associated with the businesses acquired pursuant to the JACAM Acquisition and AES Permian Acquisition (for which there are no associated costs in the comparable periods in 2012). The slight increase in year-over-year Cash General and Administrative Costs as a percentage of revenue is due to one-time costs related to the Company's current year business acquisitions, associated financings, and internal-reorganization.

For the three month period ended December 31, 2013, CES recorded general and administrative expenses of $31.5 million or 16% of revenue, compared to general and administrative expenses of $16.1 million or 17% of revenue generated in the same period last year. For the twelve month period ended December 31, 2013, CES recorded general and administrative expenses of $103.9 million or 16% of revenue, compared to general and administrative expenses of $62.6 million or 13% of revenue in 2012. The increase in general and administrative expenses as a percentage of revenue for the year-to-date period is primarily as a result of an increase in non-cash expenses recorded within G&A such as stock-based compensation and depreciation and amortization.

Depreciation and Amortization

Depreciation and amortization expenses are included in both costs of sales and general and administrative expenses on the Company's consolidated statements of income and comprehensive income as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	**4,613**	1,918	**15,084**	7,419
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	**3,529**	882	**10,455**	3,371
Depreciation expense on property and equipment	**475**	198	**1,401**	507
	4,004	1,080	**11,856**	3,878
Total depreciation and amortization expense	**8,617**	2,998	**26,940**	11,297

Depreciation of property and equipment and amortization of intangible assets totalled $8.6 million for the three month period ended December 31, 2013, as compared to $3.0 million for the same period in 2012. For the three months ended December 31, 2013, $4.6 million (2012 – $1.9 million) of depreciation of property and equipment was included in cost of sales and $4.0 million (2012 – $1.1 million) of depreciation and amortization was included in G&A, of which $3.5 million related to amortization of intangible assets (2012 - $0.9 million). For the year-to-date period ending December 31, 2013, depreciation of property and equipment and amortization of intangible assets totalled $26.9 million, as compared to $11.3 million for the same period in 2012. Of this amount, $15.1 million (2012 - $7.4 million) was included in cost of sales and $11.9 million (2012 - $3.9 million) was included in G&A, of which $10.5 million related to amortization of intangible assets (2012 - $3.4 million). The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's continued capital investment in the expansion of operations in both Canada and the United States as well as the amortization of the Company's intangible assets associated with the Company's acquisitions in the fourth quarter of 2012 and the year ended December 31, 2013.

Finance Costs

Finance costs were $5.5 million for the three months ended December 31, 2013, as compared to $1.2 million during the same period last year. Year-to-date, CES incurred finance costs of $19.0 million, as compared to $3.6 million during 2012. The year-over-year increase is primarily as a result of interest incurred on the Senior Notes and the JACAM Acquisition Bridge Facility.

Interest expense
During the three and twelve months ended December 31, 2013, the Company's interest expense included in finance costs consists of interest expense on vehicle financing loans, capitalized lease facilities, the Senior Facility, the Senior Notes, and the JACAM Acquisition Bridge Facility. Amortization of capitalized deferred financing costs on both the Senior Notes and the Senior Facility are included in interest expense under IFRS, and in the table below is deducted from total interest expense in order to calculate Cash Interest Expense.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Total interest expense, net of interest income	**5,199**	838	**18,265**	3,537
Deduct non-cash interest expense:				
Amortization of debt issue costs	**238**	62	**720**	186
Cash Interest Expense (1)	**4,961**	776	**17,545**	3,351

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

The interest expense component of finance costs was $5.2 million for the three months ended December 31, 2013, compared to $0.8 million in the fourth quarter of 2012. For the twelve months ended December 31, 2013, interest expense included in finance costs was $18.3 million, as compared to $3.5 million for the same period in 2012, resulting in an increase of $14.7 million. The respective year-over-year increase is primarily a result of the interest incurred on the Senior Notes of $4.1 million and $11.7 million during the three and twelve month periods ended December 31, 2013, respectively, plus the interest and commitment fees of $2.6 million incurred on the JACAM Acquisition Bridge Facility. These increases are partially offset by a decrease in interest on the Senior Facility of $0.2 million and $1.2 million during the three and twelve month periods ended December 31, 2013, respectively, down to $0.4 million and $1.5 million for the three and twelve months ended December 31, 2013, respectively.

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2013, include a net foreign exchange loss of $0.06 million and $0.5 million, respectively (2012 – a loss of $0.3 million and $0.3 million, respectively), primarily related to foreign exchange losses on the Company's US denominated receivables.

Derivative Gains and Losses
Finance costs for the three and twelve month ended December 31, 2013, include net derivative losses of $0.2 million and $0.2 million, respectively (2012 – a loss of $0.03 million and a gain of $0.2 million, respectively), relating to the Company's foreign currency derivative contracts. As of December 31, 2013, the Company had a financial derivative liability of net $0.2 million relating to its outstanding derivative contracts (December 31, 2012 – net asset of $0.04 million).

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

At December 31, 2013, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to a portion of expected upcoming US dollar denominated cash flows:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2014	US$700	Deliverable Forward	Physical Sale	$1.0357
February 2014	US$700	Deliverable Forward	Physical Sale	$1.0364
March 2014	US$700	Deliverable Forward	Physical Sale	$1.0370
April 2014	US$700	Deliverable Forward	Physical Sale	$1.0377
May 2014	US$700	Deliverable Forward	Physical Sale	$1.0365
June 2014	US$700	Deliverable Forward	Physical Sale	$1.0480
July 2014	US$700	Deliverable Forward	Physical Sale	$1.0493
August 2014	US$700	Deliverable Forward	Physical Sale	$1.0500
September 2014	US$700	Deliverable Forward	Physical Sale	$1.0513
October 2014	US$700	Deliverable Forward	Physical Sale	$1.0521
November 2014	US$700	Deliverable Forward	Physical Sale	$1.0605
December 2014	US$700	Deliverable Forward	Physical Sale	$1.0748
Total	US$8,400			$1.0474

Current and Deferred Income Taxes

Current income tax expense is related to taxable income in Canada, the US, and Luxembourg. During the three months ended December 31, 2013, the Company recorded a current income tax expense of $6.5 million as compared to $0.7 million in 2012. For the twelve month period ending December 31, 2013, the Company recorded $9.2 million in current tax expense, compared to $13.3 million in the same period in 2012. The year-over-year decrease in current income tax expense is primarily due to the benefit of internal financing and the deduction of the interest incurred on the Senior Notes, for which there are no associated deductions in the comparable 2012 periods. In addition, taxable income in the United States was lower for the twelve months ended December 31, 2013, due to utilization of tangible and intangible tax pools associated with both the JACAM Acquisition and AES Permian Acquisition and the higher capital asset additions in 2013 for which bonus depreciation is eligible on selected US additions.

In the fourth quarter of 2013, the Company recorded a deferred income tax recovery of $1.2 million compared to a deferred income tax expense of $0.7 million in Q4 2012. Year-to-date, the Company recorded a deferred income tax expense of $5.5 million compared to $2.7 million for the same period in 2012. The deferred income tax expense recorded for the three and twelve months ended December 31, 2013, relates to a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The year-over-year increase in deferred income tax expense is primarily due to the Company being able to record bonus depreciation on selected US additions in 2013.

Net Working Capital

CES continued to maintain a strong statement of financial position or "balance sheet" as at December 31, 2013, with positive net working capital of $197.4 million (December 31, 2012 - $114.9 million, December 31, 2011 - $153.7). The increase in working capital is primarily due to the working capital balances acquired through the JACAM Acquisition and AES Permian Acquisition, as well as the increase in activity during 2013 as compared to Q4 2012. The increase in working capital balances is comprised primarily of a $100.0 million increase in accounts receivable, a $26.2 million increase in inventory, a $3.6 million increase in prepaid expenses, a $3.8 million increase in income taxes receivable, and a $7.5 million reduction in income taxes payable. These increases to working capital are partially offset by a $44.9 million increase in accounts payable and accrued liabilities, and a $10.9 million increase in the current portion of deferred acquisition consideration related to the AES Permian Acquisition.

Total Current Assets

Total current assets of CES increased from $172.7 million at December 31, 2012 to $306.3 million at December 31, 2013 (December 31, 2011 - $230.6 million). The increase is primarily due to the acquisitions completed and the organic growth of the Company in 2013 and the current asset balances acquired through the JACAM Acquisition and AES Permian Acquisition. These changes resulted in an increase in accounts receivable of $100.0 million, an increase in inventory of $26.2 million, an increase in prepaid expenses of $3.6 million, and an increase in income taxes receivable of $3.8 million.

Total Long-Term Assets

Year-over-year, total long-term assets of CES increased by $319.0 million to $501.0 million at December 31, 2013 from $181.9 million at December 31, 2012 (December 31, 2011 - $154.8 million). The increase is primarily attributable to the long-term assets acquired through the JACAM Acquisition and AES Permian Acquisition, which includes $54.3 million of property and equipment, $73.3 million in intangible assets, and $150.2 million of goodwill based on the Company's purchase price allocations.

Long-Term Financial Liabilities

CES had long-term debt totalling $306.8 million at December 31, 2013, compared to $68.8 million at December 31, 2012 (December 31, 2011 - $94.1 million), an increase of $238.1 million. The year-over-year increase in long-term debt is primarily as a result of the Senior Notes issued on April 17, 2013. Additional details are included in the Liquidity and Capital Resources section of this MD&A.

At December 31, 2013, long-term debt liabilities were comprised of the following balances:

	As at	
$000's	**December 31, 2013**	December 31, 2012
Senior Facility	**84,385**	67,993
Senior Notes	**225,000**	-
Vehicle financing loans	**2,207**	2,362
Equipment financing loans	**1,162**	-
	312,754	70,355
Less net unamortized debt issue costs	**(3,961)**	(583)
Less current portion of long-term debt	**(1,955)**	(1,014)
Long-term debt	**306,838**	68,758

At December 31, 2013, the Company had finance lease liabilities of $6.3 million, net of the current portion of $3.1 million, representing an increase of $0.9 million from December 31, 2012.

	As at	
$000's	**December 31, 2013**	December 31, 2012
Finance lease obligations	**6,329**	5,407
Less current portion of finance lease obligations	**(3,124)**	(2,590)
Long-term finance lease obligations	**3,205**	2,817

During the three and twelve months ended December 31, 2013, the Company made long-term scheduled debt and lease repayments totalling $1.3 million and $4.9 million, respectively, on its finance leases, vehicle debt, and credit facilities.

On October 2, 2013, the Company completed an amendment to its syndicated Senior Facility (the "Senior Facility ") which now allows the Company to freely borrow up to $150.0 million with the removal of the borrowing base requirement. Additional details on the Company's Senior Facility and other Long-Term Financial Liabilities are included in the Liquidity and Capital Resources section of this MD&A.

Shareholders' Equity

Shareholders' equity increased from $215.4 million at December 31, 2012 to $360.5 million at December 31, 2013. The increase in shareholders' equity is primarily attributable to the $74.2 million relating to shares issued as consideration in conjunction with the JACAM Acquisition and AES Permian Acquisition, $33.5 million in shares issued pursuant to the Offering, $37.3 million in net income, $14.2 million relating to the issuance of equity under the Company's stock-based compensation plans, $12.5 million in contributed surplus related to stock based compensation expense, a $19.9 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned US subsidiary, $4.2 million relating to the issuance of equity pursuant to the acquisition and property and equipment, offset by $44.3 million of dividends declared by the Company during the year.

Related Party Transactions

During the year ended December 31, 2013, the Company purchased equipment that was previously rented from a company controlled by the spouse of one of the Company's directors. The aggregate purchase price of the equipment was $1.5 million and was satisfied through the issuance of a two year promissory note. During the three and twelve months ended December 31, 2013, the Company made rental and principal payments in the amount of $0.2 million and $2.3 million, respectively (2012 - $0.3 million and $0.7 million, respectively). As at December 31, 2013, the Company had an outstanding liability of $1.2 million (December 31, 2012 - $nil) for the remaining payments.

For the three and twelve months ended December 31, 2013, lease payments on equipment and office leases in the amount of $0.04 million and $0.1 million, respectively, (2012 - $0.02 million and $0.08 million, respectively) were made for rental agreements CES has with companies controlled by a director and insiders of the Company.

During the year ended December 31, 2013, the Company acquired property and equipment from a company controlled by one of the Company's employees and insiders. The aggregate purchase price was $5.4 million consisting of $1.2 million in cash paid on the date of the transaction and $4.2 million in share consideration satisfied through the issuance of 238,108 common shares of the Company.
Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2013, remuneration of $14.8 million included $8.5 million of salaries and cash-based compensation and $6.3 million of stock-based compensation costs (December 31, 2012 – $7.5 million and $2.6 million, respectively).

These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
Revenue	**200,569**	182,274	130,666	149,309
Gross margin	**55,060**	50,250	31,415	38,061
Net income	**12,837**	12,600	1,859	9,959
per share– basic	***0.19***	*0.19*	*0.03*	*0.17*
per share– diluted	***0.18***	*0.19*	*0.03*	*0.16*
EBITDAC [1]	**36,482**	32,590	17,158	23,587
per share– basic	***0.55***	*0.50*	*0.27*	*0.40*
per share– diluted	***0.52***	*0.48*	*0.26*	*0.39*
Funds Flow From Operations [1]	**25,006**	26,842	13,374	17,872
per share– basic	***0.37***	*0.41*	*0.21*	*0.30*
per share– diluted	***0.36***	*0.39*	*0.20*	*0.29*
Dividends declared	**12,730**	11,491	10,386	9,712
per share	***0.19***	*0.18*	*0.17*	*0.17*
Shares Outstanding				
End of period	**67,107,128**	66,546,509	63,080,336	62,657,836
Weighted average – basic	**66,914,549**	65,212,693	62,861,231	58,885,788
Weighted average – diluted	**69,577,834**	67,982,881	65,246,514	60,735,878

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

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

Seasonality of Operations

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of expansion in the US and increased diversification of operations away from the drill-bit.

SELECTED ANNUAL INFORMATION

	Year Ended December 31,				
($000's, except per share amounts)	**2013**	% Change	2012	% Change	2011
Revenue	**662,818**	41%	471,299	3%	459,257
Gross margin	**174,786**	59%	110,167	(11%)	123,415
Gross margin percentage of revenue	**26%**		23%		27%
Income before taxes	**51,893**	18%	43,890	(28%)	61,145
per share – basic	***0.82***	*4%*	*0.79*	(29%)	*1.12*
per share - diluted	***0.79***	*4%*	*0.76*	(30%)	*1.08*
Net income	**37,255**	34%	27,869	(33%)	41,695
per share – basic	***0.59***	*18%*	*0.50*	(34%)	*0.76*
per share - diluted	***0.56***	*14%*	*0.49*	(34%)	*0.74*
EBITDAC [(1)]	**109,818**	69%	64,928	(15%)	76,320
per share – basic	***1.73***	*48%*	*1.17*	(16%)	*1.39*
per share - diluted	***1.66***	*47%*	*1.13*	(16%)	*1.35*
Funds Flow From Operations [(1)]	**83,094**	72%	48,234	(30%)	68,663
per share – basic	***1.31***	*51%*	*0.87*	(30%)	*1.25*
per share - diluted	***1.26***	*50%*	*0.84*	(31%)	*1.22*
Dividends declared	**44,319**	32%	33,476	28%	26,118
per share	***0.70***	*17%*	*0.60*	25%	*0.48*

	As At December 31,				
Financial Position ($000's)	**2013**	% Change	2012	% Change	2011
Net working capital	**197,366**	72%	114,899	(25%)	153,660
Total assets	**807,319**	128%	354,642	(8%)	385,351
Long-term financial liabilities [(2)]	**322,766**	351%	71,575	(26%)	96,779
Shareholders' equity	**360,519**	67%	215,420	6%	204,060

Notes:

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

[2] Includes long-term portion of the Deferred Acquisition Consideration, the Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2013, the Company had net working capital of $197.4 million (December 31, 2012 - $114.9 million). The increase in working capital is primarily due to the working capital balances acquired through the JACAM Acquisition and AES Permian Acquisition, as well as the increase in activity during 2013 as compared to Q4 2012. The increase in working capital balances is comprised primarily of a $100.0 million increase in accounts receivable, a $26.2 million increase in inventory, a $3.6 million increase in prepaid expenses, a $3.8 million increase in income taxes receivable, and a $7.5 million reduction in income taxes payable; offset by a $44.9 million increase in accounts payable and accrued liabilities, and a $10.9 million increase in the current portion of deferred acquisition consideration related to the AES Permian Acquisition.

Senior Facility

On October 2, 2013, the Company completed a third amendment to its syndicated Senior Facility (the "Senior Facility") which allows the Company to borrow up to $150.0 million. 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 Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by $30.0 million to a maximum borrowing of $180.0 million. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% to 1.25% or the Canadian Bankers Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.50% to 2.25%. The Senior Facility has a standby fee ranging from 0.34% to 0.51%. The applicable pricing margins are based on a sliding scale of senior funded debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

In conjunction with the Senior Facility, the following are the financial covenants imposed on CES:

- The ratio of total funded debt to EBITDA on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of senior funded debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis. The private placement financing of senior unsecured notes as noted below would not be included in the calculation of senior funded debt.
- The quarterly ratio of EBITDA to interest expense must be more than 3.00 to 1.00 calculated on a rolling four-quarter basis.

At December 31, 2013, the Company had a net draw of $84.0 million on the Senior Facility (December 31, 2012 – $67.4 million), net of capitalized transaction cost of $0.4 million (December 31, 2012 – $0.5 million). The maximum available draw on the Senior Facility at December 31, 2013, was $150.0 million (December 31, 2012 - $98.2 million).

As at December 31, 2013, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

JACAM Acquisition Bridge Facility

In conjunction with the JACAM Acquisition, a bridge facility was obtained by the Company on February 26, 2013 (the "JACAM Acquisition Bridge Facility"), in the amount of $160.0 million for the sole purpose of financing the closing of the JACAM Acquisition. The JACAM Acquisition Bridge Facility had a one year term and was repaid in full on April 17, 2013. The JACAM Acquisition Bridge Facility incurred commitment and other fees of $1.7 million payable on the date of draw, February 26, 2013. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the three and twelve months ended December 31, 2013 totaled $nil million and $2.6 million, respectively.

Additional consideration provided to close the JACAM Acquisition included a $10.3 million (US$10.0 million) vendor take back note ("Promissory Note"). This Promissory Note incurred interest at a rate of 0.21% per annum and was repaid on April 18, 2013.

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 Senior Notes contain certain early redemption options, which the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. Interest is payable on the Senior Notes semi-annually on April 17 and October 17. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt. During the three and twelve months ended December 31, 2013, the Company recorded $4.1 million and $11.7 million, respectively in interest expense related to the Senior Notes.

The Company used the net proceeds of $219.6 million from the Senior Notes offering to: (i) permanently repay its $160.0 million JACAM Acquisition Bridge Facility and the $10.3 million Promissory Note incurred in connection with the JACAM Acquisition, (ii) to refinance certain amounts outstanding under its credit facilities, and (iii) for general corporate purposes.

Other Indebtedness

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

- Bank leasing facilities of which the Company had an outstanding balance owing on these lease facilities of $1.6 million at December 31, 2013, as compared to $2.9 million at December 31, 2012. The floating interest rate leases are for terms ranging to March 2014 with interest on the lease facilities at the bank's prime rate of interest plus 1.75%, resulting in monthly payments of approximately $0.03 million. The fixed interest rate leases are for terms ranging to March 2016 with interest on the lease facilities at a weighted average rate of 4.95%, resulting in monthly payments of approximately $0.07 million.
- Non-bank vehicle and equipment finance leases are secured by each related asset at a weighted average interest rate of approximately 5.98%, and have termination dates ranging from February 2014 through August 2017. At December 31, 2013, outstanding vehicle and equipment finance lease obligations totalled $6.3 million as compared to $5.4 million at December 31, 2012.
- Vehicle financing loans are secured by each related vehicle at a weighted average interest rate of approximately 8.19% and have termination dates ranging from January 2014 through December 2016. At December 31, 2013, outstanding vehicle loans totalled $2.2 million, as compared to $2.4 million at December 31, 2012.
- Equipment financing loans are secured by each related piece of equipment and have a weighted average interest rate of 17.25% and a termination date of April 2015. At December 31, 2013, outstanding equipment loans totalled $1.2 million, as compared to $nil at December 31, 2012.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2013:

	Payments Due By Period (1)					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	88,066	-	-	-	-	**88,066**
Dividends payable (2)	4,362	-	-	-	-	**4,362**
Deferred acquisition consideration	-	10,878	10,423	2,300	-	**23,601**
Senior Unsecured Notes	-	-	-	-	225,000	**225,000**
Long-term debt at fixed interest rates (3)	317	1,638	1,183	231	-	**3,369**
Long-term debt at floating interest rates (3)	-	-	-	84,385	-	**84,385**
Finance lease obligations at fixed interest rates (3)	128	654	677	67	-	**1,526**
Finance lease obligations at floating interest rates (3)	419	1,923	1,941	520	-	**4,803**
Office operating leases	733	2,839	2,902	3,547	-	**10,021**
Total	94,025	17,932	17,126	91,050	225,000	**445,133**

Notes:

[1] *Payments denominated in foreign currencies have been translated at the respective year end exchange rate*

[2] *Dividends declared as of December 31, 2013*

[3] *Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion*

Pursuant to the Offering that closed on August 8, 2013, the Company issued a total of 2,110,000 common shares of the Company for gross proceeds of $35.0 million. Net proceeds, after offering expenses and underwriter's commission of approximately $2.1 million, were $32.9 million and were used to repay outstanding indebtedness under the Company's Senior Facility and for general corporate purposes.

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

Cash Flows from Operating Activities

For the three months ended December 31, 2013, cash flow from operating activities was an outflow of $4.4 million compared to an inflow of $37.4 million during the prior year, with the decrease being primarily as a result of the change in non-cash working capital. Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended December 31, 2013, Funds Flow From Operations was $25.0 million, compared to a $8.6 million during Q4 2012.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Cash provided by operating activities	**(4,410)**	37,416	**19,153**	87,021
Adjust for:				
Change in non-cash operating working capital	**29,416**	(28,813)	**63,941**	(38,787)
Funds Flow From Operations [(1)]	**25,006**	8,603	**83,094**	48,234

Notes:

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

Cash Flows from Investing Activities

For the three months ended December 31, 2013, net cash outflows from investing activities totalled $14.2 million compared to $14.4 million for the three months ended December 31, 2012.

For the three months ended December 31, 2013, $13.5 million was spent on property and equipment (net of $1.3 million in vehicle financing and leases). During the quarter, CES had $1.2 million of additions related to Maintenance Capital and $13.6 million of additions related to Expansion Capital gross of vehicle financing. Notable Maintenance Capital additions during the quarter ended December 31, 2013, include: $0.7 million in vehicles, $0.3 million in trucks and trailers, and $0.2 million in field equipment and other maintenance additions. Notable gross expansion additions during the quarter ended December 31, 2013, include: $5.7 million for warehouse and facilities, $3.0 million in trucks and trailers,, $1.8 million in vehicles, $1.2 million in processing equipment, $0.8 million in computer equipment, $0.3 million for tanks, $0.3 million for machinery and field equipment, and $0.5 million for other expansion additions.

Expansion Capital expenditures in Q4 2013 were higher than historical norms primarily as a result of a number of new capital projects undertaken including the ongoing expansion of the Company's existing operations. The Company is currently constructing a barite grinding facility and liquid mud plant in Texas and continuing the expansion of its JACAM facilities. The Company continues to invest in new warehouse facilities and fluids storage facilities to service customers throughout North America and the other necessary ancillary and supporting equipment required to support these facilities and the corresponding expanded operations.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Expansion Capital [(1)]	**13,595**	3,814	**43,106**	19,216
Maintenance Capital [(1)]	**1,163**	59	**4,115**	855
Total investment in property and equipment	**14,758**	3,873	**47,221**	20,071
Asset financing and leases	**(1,257)**	(1,363)	**(5,661)**	(3,799)
Capital expenditures	**13,501**	2,510	**41,560**	16,272
Change in non-cash investing working capital	**(422)**	43	**(485)**	1,499
Cash used for investment in property and equipment	**13,079**	2,553	**41,075**	17,771

Notes:

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

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

Cash Flows from Financing Activities

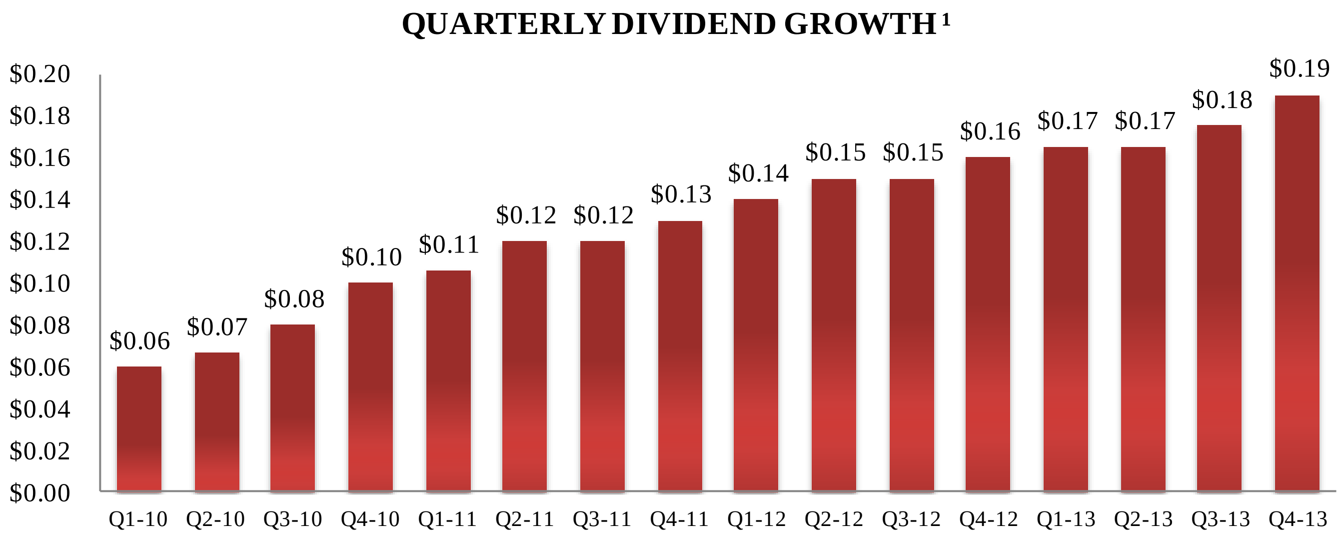
For the three month period ended December 31, 2013, cash flows from financing activities totalled a cash inflow of $18.6 million compared to an outflow of $23.0 million during the comparative prior year period. This year-over-year change is primarily as a result of an increase to the Senior Facility of $29.2 million, share issuance costs of $2.6 million, offset by shareholder dividend payments of $11.9 million, and repayment of long-term debt and finance leases of $1.3 million during the quarter.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2013**	2012	**2013**	2012
Cash provided by (used in) operating activities	**(4,410)**	37,416	**19,153**	87,021
Adjust for:				
Change in non-cash operating working capital	**29,416**	(28,813)	**63,941**	(38,787)
Funds Flow From Operations [(1)]	**25,006**	8,603	**83,094**	48,234
Maintenance Capital [(2)]	**(1,163)**	(59)	**(4,115)**	(855)
Distributable Earnings [(1)]	**23,843**	8,544	**78,979**	47,379
Dividends declared	**12,730**	9,029	**44,319**	33,476
Payout Ratio [(1)]	**53%**	106%	**56%**	71%

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

Distributable Earnings were $23.8 million for the three months ended December 31, 2013, compared with $8.5 million for the same period in 2012. During the three months ended December 31, 2013, CES declared monthly dividends of $0.06 per share for October and $0.065 per share for November and December for a total of $0.19 per share for the quarter. During the fourth quarter of 2013, the Payout Ratio was 53% compared to 106% for the fourth quarter of 2012.



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

Dividend Policy

In November of 2013, CES increased their dividend for the eighth time since January 1, 2010. The Company declared dividends to holders of common shares for the twelve months ended December 31, 2013, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	$0.055	**3,133**
February	Feb 28	Mar 15	0.055	**3,133**
March	Mar 28	Apr 15	0.055	**3,446**
April	Apr 30	May 15	0.055	**3,450**
May	May 31	Jun 14	0.055	**3,467**
June	Jun 28	Jul 15	0.055	**3,469**
July	Jul 31	Aug 15	0.055	**3,518**
August	Aug 30	Sep 13	0.060	**3,980**
September	Sep 30	Oct 15	0.060	**3,993**
October	Oct 31	Nov 15	0.060	**4,010**
November	Nov 30	Dec 14	0.065	**4,358**
December	Dec 31	Jan 13	0.065	**4,362**
Total dividends declared during the year			$0.695	**44,319**

Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary significantly based on the Company's financial performance. During periods of relatively strong financial performance, typically associated with higher activity levels at the drill-bit, dividends declared as a percentage of net income and cash flow from operations will decrease, and likewise, during periods of relatively weaker financial performance 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 relatively weaker financial performance or changes in the level of working capital, dividends may be funded through CES' credit facilities.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, CES intends to continue to make cash dividends to shareholders, these dividends are not guaranteed. In addition, future expansion, investments, and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a large proportion of cash flow from operations being paid out as a dividend as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated.

Subsequent to December 31, 2013, the Company declared dividends to holders of common shares in the amount of $0.065 per common share payable on February 14, 2014, and March 14, 2014, for shareholders of record on January 31, 2014, and February 28, 2014, respectively.

Shareholders' Equity

As of December 31, 2013, CES had a total of 67,107,128 common shares outstanding. As of the date of this MD&A, CES had a total of 67,274,067 common shares outstanding.

Stock-based Compensation

As at December 31, 2013, a total of 6,710,713 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 2,462,446 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")

At December 31, 2013, a total of 2,391,548 Share Rights were outstanding (December 31, 2012 – 2,920,088) at a weighted average exercise price of $11.53 (assuming all SRIP's are exercised at their respective original exercise price) of which 1,162,200 were exercisable. As of the date of this MD&A, an aggregate of 2,410,198 Share Rights remaining outstanding, of which 1,120,850 are exercisable.

b) Restricted Share Unit Plan ("RSU")

At December 31, 2013, a total of 1,657,500 Restricted Share Units were outstanding (December 31, 2012 – 741,510) at a weighted average issuance price of $14.52, none of which were vested. As of the date of this MD&A, an aggregate of 1,611,922 Restricted Share Units remain outstanding, none of which have vested.

Commitments

At December 31, 2013, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Office and facility rent	3,572	2,902	2,279	1,168	100	**10,021**

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Accounts receivable

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

Inventories

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

Property and equipment

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

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

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

Derivatives
The fair value of outstanding derivatives is based on forward prices, discount rates, and forward foreign exchange rates as at the reporting date and may differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in net income. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

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

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases used in the computation of taxable income, measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realised based on the enacted or substantively enacted future income tax rates in effect at the end of the reporting period. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact net income.

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

The International Accounting Standards Board ("IASB") has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard are yet to be finalized and in July 2013, the IASB deferred the mandatory effective date of IFRS 9 from January 1, 2015, leaving it open pending the finalization of the standard. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

Changes in accounting policies
As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. The adoption of these standards did not have a material impact on the accounting policies, methods of computation, or presentation applied by the Company.

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

Internal Controls over Financial Reporting ("ICFR")

Management of CES is responsible for establishing and maintaining internal controls over financial reporting ("ICFR") for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and effectiveness of CES' internal control controls over financial reporting as at December 31, 2013. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2013.

There have been no changes to CES' internal controls over financial reporting during the three and twelve months ended December 31, 2013 that have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting, other than the JACAM Acquisition on March 1, 2013 and the AES Permian Acquisition on July 1, 2013.

In accordance with the provisions of NI 52-109, Management has limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies, and procedures of JACAM and AES Permian. CES acquired all of the business assets of JACAM on March 1, 2013, and the drilling fluids business assets of Venture Mud and certain additional assets from affiliates of Venture Mud on the effective date of July 1, 2013.

JACAM and AES Permian's aggregate contribution to the Company's audited consolidated financial statements for the quarter and year ended December 31, 2013, was approximately 24% and 20%, respectively, of consolidated revenues and approximately 33% and 41%, respectively, of consolidated income before taxes. Additionally, at December 31, 2013, JACAM and AES Permian's aggregate current assets and current liabilities were approximately 18% and 21% of consolidated current assets and current liabilities, respectively, and its long-term assets and long-term liabilities were approximately 56% and 3% of consolidated long-term assets and long-term liabilities, respectively. The scope limitation is primarily based on the time required to assess JACAM and AES Permian's DC&P and ICFR in a manner consistent with CES' other operations.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2013 Annual Report, CES' Annual Information Form dated March 13, 2014 in respect of the year ended December 31, 2013, and CES' Information Circular in respect to the June 20, 2013 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

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

As a provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield, the volatility in activity experienced at the drill-bit and completion stages is muted by the long-term and less variable revenue generated by CES at the pump-jack and wellhead during the production stage and in the mid-stream, pipeline and transportation phases. As CES grows these facets of its business, the predictability of its earnings should also increase. The revenue and general market consumption of consumable chemicals in these market segments is more stable and predictable than the drilling fluids market, and by all accounts the overall market continues to grow. However, CES is a relative new entrant and is much smaller than the larger more established competitors in this space. This presents opportunities as well as risks to the overall success CES may achieve in the production and specialty chemical space.

Oil, natural gas liquids and natural gas prices in North America continue to see volatility, and in general all trade at discounts to comparable world-wide bench-marks. This increases risk to CES' customers and negatively impacts their available cash flow. Crude oil prices strengthened earlier in 2013, but West Texas Intermediate ("WTI") crude prices retreated below $100/bbl in the back half of 2013. WTI has recently recovered above $100/bbl, but prices are likely to continue to see volatility in the face of macro-economic forces, and the forward curves are trading below $100/bbl. In addition, despite a recent tightening, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is on-going uncertainty around the ability for WCSB producers to reach markets with regulatory approvals of several proposed pipeline projects in limbo and potential changes to the crude by rail industry in the face of several derailments. In contrast to oil prices, natural gas prices have remained relatively weak since their peak in 2008. Since mid-2012 there has been a very modest recovery in natural gas prices in North America. Recently cold winter weather and lower gas in storage numbers have seen a spike in natural gas prices throughout North America. However, there is no clear upward direction on long-term future prices as evidenced by the futures curve for Nymex Henry Hub hovering around $4.50 per MMBtu. There has yet to be any significant shift in capital to dry gas drilling as most operators are drilling for liquids rich gas in order to meet their internal rates of return hurdles. Although 2014 holds more optimism, in the face of high costs, weaker commodity prices, and reduced access to the capital markets, operators in Canada in general have been cautious while in the US overall activity has remained flat to slightly down. Activity could slow further if operators' access to capital remains challenged or the price of crude oil falls or the long-term price of natural gas does not recover to more robust levels.

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

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

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

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

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

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. The potential for future changes in these and other jurisdictions, is a risk for the Canadian oilfield services sector.

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

The volatility in the financial markets over the past five years has impacted the general availability of both credit and equity financing in the marketplace. Economic and sovereign debt issues are ongoing in Europe and, although there is more optimism for stronger economic growth in the US, the strength and duration of the recovery remains uncertain. Despite CES' successful issuance of the Senior Notes in Q2 2013, and the successful Offering completed in August 2013, it may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. CES is also reliant on its Senior Facility to fund working capital and growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under any of its debt facilities.

The Company and its various subsidiaries are subject to corporate income and other taxation in various federal, provincial and state jurisdictions in Canada, the US, and Luxembourg. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audits and reassessments by the various taxation authorities and where applicable, the Company adjusts previously recorded tax expense to reflect audit adjustments. We believe we have adequately provided for all income tax obligations. . However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities or new tax legislation could result in a an increase or decrease to our provision for income taxes. Although not quantifiable at this time, these differences could potentially have a material impact on future net income and the Company's effective tax rate.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion. It should be noted that in Q4 2011 CES received a letter from the Canada Revenue Agency ("CRA") requesting information in order to review the Conversion. CES also received an additional verbal request for information in Q3 2012. CES provided the information requested by the CRA and to date has not had any further correspondence with the CRA.

Reference should be made to CES' Annual Information Form dated March 13, 2014 for the period ended December 31, 2013, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

OUTLOOK

CES continues to make significant strides in advancing its strategic vision of being a leading provider of technically advanced consumable chemical solutions throughout the full life cycle of the oilfield. The integration of JACAM with the overall business is progressing successfully. JACAM products have been introduced into Canada on both the drilling fluids side and through PureChem with very positive results. In the US, initial steps have been undertaken to support AES operations with JACAM manufactured materials and to expand JACAM's market penetration via the established AES platform. CES sees the opportunity for the unique JACAM products expanding as we move forward. From a manufacturing perspective CES is undertaking further vertical integration initiatives at the JACAM facility with the completion of the solid chemistry line expansion, the build-out of hydrogenation capabilities and the construction of an organo clay plant.

In addition to the integration initiatives and the financial contribution JACAM continues to make, CES sees other significant opportunities in the US as we continue to leverage our platform, product suite, and infrastructure. In particular, the AES Permian Acquisition, completed in July 2013, has filled the last remaining geographical hole on the US map for CES. The Permian is the busiest drilling basin in North America and is continuing to transition to a horizontal drilling market. CES expects to capitalize on this opportunity through its unique product offerings, the establishment of an oil based mud plant in the Permian, and the commissioning of its new barite grinding facility in Corpus Christi which is expected to be on-line mid-year.

The Canadian business is also performing well and has positive momentum going into 2014. The fourth quarter of 2013 saw a rebound in drilling related market-share with new customer wins mainly attributable to new technologies introduced over the past year. The PureChem division continues its successful build-out across western Canada with a growing customer base and revenues.

CES is reaffirming its expected 2014 guidance that was provided on November 7, 2013. CES' expected range of consolidated gross revenue for 2014 will be approximately $760.0 million to $820.0 million and expected consolidated EBITDAC will be approximately $135.0 million to $150.0 million. The 2014 guidance reflects the positive growth CES is experiencing across all its business units.

CES' balance sheet remains strong and its financial flexibility was greatly enhanced with the successful placement in April 2013 of $225.0 million aggregate principal amount 7.375% Senior Notes, and the raising of $35.0 million of equity in the successful Offering completed in August 2013.

Going forward, CES sees significant growth opportunities as a vertically integrated, full cycle provider of oilfield chemical solutions. Although revenue generated at the drill-bit and at the completions stage will remain subject to volatility, operators continue to drill more complex, deeper, and longer horizontal wells that require more chemicals and fluids in general, but also more technically advanced chemical solutions in order to be successfully drilled, cased and completed. Through both its JACAM and PureChem divisions, CES has vertically integrated manufacturing capabilities with unutilized throughput at both its Sterling, KS and Carlyle, SK plants. CES also has a full suite of technically advanced solutions of production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. These markets are less volatile and are growing on a year-over-year basis as the volumes of produced hydrocarbons and the associated produced water increases. CES believes over time it can grow its market share within each of these sub-segments of the oilfield consumable chemical market. CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share. CES believes that its unique value proposition in this increasingly complex operating environment makes it the premier independent provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield in North America.

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

The EQUAL Transport division remains profitable. It is expected this business will continue to be instrumental in supporting the core businesses and be economically viable.

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

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

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

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

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

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

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 13, 2014

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 13, 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Canadian Energy Services & Technology Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Energy Services & Technology Corp. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte LLP"

Chartered Accountants

March 13, 2014
Calgary, Canada

Canadian Energy Services & Technology Corp.

Consolidated Statements of Financial Position

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

	As at	
	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Accounts receivable	**207,106**	107,112
Financial derivative asset (note 19)	**-**	41
Income taxes receivable	**3,805**	-
Inventory (note 5)	**87,621**	61,382
Prepaid expenses	**7,795**	4,164
	306,327	172,699
Property and equipment (note 6)	**146,291**	54,667
Intangible assets (note 7)	**84,315**	15,921
Deferred income tax asset (note 13)	**5**	272
Goodwill (note 7)	**270,381**	111,083
	807,319	354,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**88,066**	43,181
Financial derivative liability (note 19)	**171**	-
Dividends payable (note 17)	**4,362**	3,127
Income taxes payable	**405**	7,888
Current portion of deferred acquisition consideration (note 4)	**10,878**	-
Current portion of long-term debt (note 8)	**1,955**	1,014
Current portion of finance lease obligations (note 9)	**3,124**	2,590
	108,961	57,800
Deferred acquisition consideration (note 4)	**12,723**	-
Long-term debt (note 8)	**306,838**	68,758
Finance lease obligations (note 9)	**3,205**	2,817
Deferred income tax liability (note 13)	**15,073**	9,847
	446,800	139,222
Commitments (note 18)		
Shareholders' equity		
Common shares (note 14)	**342,532**	215,571
Contributed surplus (note 16)	**13,387**	8,051
Deficit	**(10,349)**	(3,285)
Accumulated other comprehensive income (loss)	**14,949**	(4,917)
	360,519	215,420
	807,319	354,642

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"	*"D. Michael Stewart"*
Thomas J. Simons	D. Michael Stewart
President & Chief Executive Officer and Director	*Director & Chairman, Audit Committee*

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

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

	Years Ended December 31,	
	2013	2012
Revenue	**662,818**	471,299
Cost of sales (notes 5 and 10)	**488,032**	361,132
Gross margin	**174,786**	110,167
General and administrative expenses (note 11)	**103,861**	62,636
Operating profit	**70,925**	47,531
Finance costs (note 12)	**19,032**	3,641
Income before taxes	**51,893**	43,890
Current income tax expense (note 13)	**9,179**	13,343
Deferred income tax expense (note 13)	**5,459**	2,678
Net income	**37,255**	27,869
Other comprehensive gain (loss):		
Unrealized foreign exchange gain (loss) on translation of foreign operations	**19,866**	(2,108)
Comprehensive income	**57,121**	25,761
Net income per share (note 14)		
Basic	**0.59**	0.50
Diluted	**0.56**	0.49

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

Canadian Energy Services & Technology Corp.

Consolidated Statements of Changes in Equity
(stated in thousands of Canadian dollars)

	Years Ended December 31,	
	2013	2012
COMMON SHARES		
Balance, beginning of year	**215,571**	200,412
Issued pursuant to the Offering, net of share issue costs and taxes (note 14)	**33,472**	-
Consideration for business combinations (note 4)	**74,200**	9,060
Issued pursuant to stock-based compensation (note 14)	**14,207**	6,099
Issued pursuant to property and equipment acquisition (note 23)	**4,153**	-
Issued pursuant to stock dividend and stock settled director fee (note 14)	**929**	-
Balance, end of year	**342,532**	215,571
CONTRIBUTED SURPLUS		
Balance, beginning of year	**8,051**	4,135
Reclassified pursuant to stock-based compensation (note 14)	**(7,199)**	(2,490)
Stock-based compensation expense (note 15)	**12,535**	6,406
Balance, end of year	**13,387**	8,051
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	**(4,917)**	(2,809)
Unrealized foreign exchange gain (loss) on translation of foreign operations	**19,866**	(2,108)
Balance, end of year	**14,949**	(4,917)
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year	**(3,285)**	2,322
Net income	**37,255**	27,869
Dividends declared (note 17)	**(44,319)**	(33,476)
Balance, end of year	**(10,349)**	(3,285)
	360,519	215,420

Canadian Energy Services & Technology Corp.

Consolidated Statements of Cash Flows
(stated in thousands of Canadian dollars)

	Years Ended December 31,	
	2013	2012
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the year	**37,255**	27,869
Adjustments for:		
Depreciation and amortization	**26,940**	11,297
Stock-based compensation	**12,535**	6,406
Non-cash expenses	**934**	69
Deferred income tax expense	**5,459**	2,678
Gain on disposal of assets	**(29)**	(85)
Change in non-cash working capital (note 21)	**(63,941)**	38,787
	19,153	87,021
FINANCING ACTIVITIES:		
Proceeds from the JACAM Acquisition Bridge Facility (note 8)	**160,000**	-
Repayment of the JACAM Acquisition Bridge Facility (note 8)	**(160,000)**	-
Repayment of promissory note payable (note 4)	**(10,255)**	-
Repayment of long-term debt and finance leases	**(4,856)**	(4,048)
Net proceeds from Senior Notes issuance (note 8)	**219,652**	-
Increase (decrease) in Senior Facility	**15,261**	(24,887)
Shareholder dividends	**(42,168)**	(32,831)
Issuance of shares, net of issuance costs	**39,946**	3,609
Issuance of long-term debt and lease proceeds	**-**	1,470
	217,580	(56,687)
INVESTING ACTIVITIES:		
Investment in property and equipment	**(41,075)**	(17,771)
Investment in intangible assets	**(3,181)**	(260)
Business combinations (note 4)	**(194,667)**	(13,700)
Proceeds on disposal of property and equipment	**2,190**	1,397
	(236,733)	(30,334)
CHANGE IN CASH	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**14,273**	4,084
Income taxes paid	**20,007**	5,698

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

1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 700 – 4th Avenue SW, Calgary, Alberta, Canada T2P 3J4. The consolidated financial statements of the Company as at and for the years ended December 31, 2013 and 2012 comprise the Company and its subsidiaries (together referred to as the "Company" or "CES").

CES' core business is to design, implement, and manufacture technically advanced consumable fluids and specialty chemicals for the oil and gas industry. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in several basins throughout the United States ("US"), with an emphasis on servicing the ongoing major resource plays. CES' business units include: Canadian Energy Services, Moose Mountain Mud, AES Drilling Fluids, AES Drilling Fluids Permian (previously referred to as Venture), PureChem Services, JACAM Chemicals, Clear Environmental Solutions, and Equal Transport.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 13, 2014.

b) Basis of measurement

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

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

c) Functional and presentation currency

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

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

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

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

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

c) Property and equipment

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

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within cost of sales on the statement of comprehensive income.

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

Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

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

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate. The Company reviews its property and equipment at each reporting date to determine whether there is any indication of impairment.

d) Leased assets

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

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

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

e) Identifiable intangible assets

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

Customer relationships	5-7 years
Software	3 years
Patents and other intangibles	10 – 20 years

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

f) Goodwill

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

g) Impairment

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

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

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

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

h) Provisions

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

i) Revenue recognition

The Company's revenue is comprised of the sale of products and the provision of services. Revenue on the sale of product is recognized at the time evidence of an arrangement exists, title to the product and risk of loss transfers to the customer, the price is fixed and determinable, and collection is reasonably assured. Revenue on the provision of services is recognized as the services are performed, when the price is fixed and determinable, and collection is reasonably assured. The Company's contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation

The Company uses the fair value method to account for share rights and stock options granted to employees, officers, and directors of the Company for grants under the Company's Share Rights Incentive Plan and Option Plan. Compensation expense for share rights and options granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant. Restricted share units are intended to be awarded to employees and officers of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense for restricted share units is based on the estimated fair value of the award at the date of grant, calculated using a five day volume weighted average share price. Compensation expense associated with the share-based compensation plans is recognized in net income over the vesting period of the respective plans with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for its share-based compensation plans at the date of grant based on the number of awards expected to vest taking into consideration past experience and future expectations and are adjusted upon actual vesting.

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

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

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

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

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

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

- taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future;
- temporary differences that arise from goodwill which is not deductible for tax purposes; and
- the initial recognition of an asset or liability in a transaction which is not a business combination.

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

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

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

o) Financial instruments

i) Non-derivative financial assets:

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

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

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

The Company has the following non-derivative financial assets:

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

Financial assets and liabilities at fair value through profit or loss

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

Loans and receivables

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

ii) Non-derivative financial liabilities:

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

p) Net income per share

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

q) Business combinations

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

r) Significant accounting judgments and estimates

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

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

Accounts receivable

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

Inventories

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

Property and equipment

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

Recoverability of asset carrying values

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

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

Derivatives

The fair value of outstanding derivatives is based on forward prices, discount rates, and forward foreign exchange rates as at the reporting date and may differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in net income. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

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

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases used in the computation of taxable income, measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realised based on the enacted or substantively enacted future income tax rates in effect at the end of the reporting period. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact net income.

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

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

s) Recent Accounting Pronouncements

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

The International Accounting Standards Board ("IASB") has undertaken a three-phase project to replace IAS 39 *"Financial Instruments: Recognition and Measurement"* with IFRS 9 *"Financial Instruments"*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 from January 1, 2015, leaving it open pending the finalization of the standard, however early adoption of the standard is still permitted. The full impact of the standard on the Company's financial statements will not be known until the project is complete.

Changes in accounting policies

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. The adoption of these standards did not have a material impact on the accounting policies, methods of computation, or presentation applied by the Company.

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

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

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

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

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

4. Business Combinations

JACAM

On March 1, 2013, through a US subsidiary, CES completed the acquisition of all of the business assets of JACAM Chemicals Company, Inc. and its subsidiaries (the "JACAM Acquisition") in order to expand the Company's advanced consumable fluids and specialty chemicals business in the US. JACAM Chemicals Company, Inc. 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 $245,611 (US$240,000) consisting of $174,290 (US$170,000) in cash paid on the date of acquisition, $61,036 (US$60,000) in share consideration satisfied through the issuance of 5,454,545 common shares of the Company, and a $10,285 (US$10,000) promissory note. The common shares issued to JACAM Chemicals Company, Inc. 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 CES 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 promissory note incurred interest at a rate of 0.21% per annum and was repaid on April 18, 2013. In conjunction with this acquisition, the Company recorded $867 in transaction costs to general and administrative expenses.

The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	25,899
Property and equipment	41,749
Intangible assets	67,224
Goodwill	117,662
Total assets	**252,534**
Current liabilities	(6,127)
Current portion of lease liabilities	(42)
Non-current portion of lease liabilities	(132)
Deferred income tax liability	(622)
Total liabilities	**(6,923)**
Net assets acquired	**245,611**

Consideration given $000's	
Cash	174,290
Share consideration	61,036
Promissory note payable	10,285
Total consideration	**245,611**

Venture Mud
On July 15, 2013, through a US subsidiary, CES completed the acquisition of the drilling fluid business assets of Venture Mud One, L.P. ("Venture Mud") and certain additional assets from affiliates of Venture Mud including VM Transports, LLC, Venture Services LLC, and Venture Services RM, LLC (the "AES Permian Acquisition"). 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 $57,142 (US$54,357) consisting of $13,164 (US$12,667) in share consideration satisfied through the issuance of 838,076 common shares of the Company, and $43,978 (US$41,960) payable in cash, of which $19,550 (US$18,533) was paid on July 15, 2013. Included in cash consideration payable is deferred acquisition consideration of $18,988 (US$18,000) 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 $5,440 (US$5,157) 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 CES 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. In conjunction with this acquisition, the Company recorded approximately $127 in transaction costs to general and administrative expenses.

The Company's purchase price allocation was as follows:

Allocation of purchase price $000's	
Current assets	8,074
Property and equipment	12,535
Intangible assets	6,115
Goodwill	32,490
Total assets	**59,214**
Current liabilities	(2,072)
Net assets acquired	**57,142**

Consideration given $000's	
Cash	19,550
Share consideration	13,164
Consideration payable post-close	5,440
Contingent consideration	18,988
Total consideration	**57,142**

2012 Acquisitions
During 2012, the Company completed the acquisitions of the following: the business assets of Petrotreat Inc. ("Petrotreat"), a privately-held production chemical and well stimulation service company; the business assets of Tervita Corporation's drilling fluids division, ProDrill Fluid Technologies ("ProDrill"); and the business assets of Mega Fluids Mid-Continent, LLC ("Mega Fluids"), a privately–held drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the Mid-Continent region.

The aggregate purchase price of the respective acquisitions was $26,515, consisting of $9,060 of share consideration satisfied through the issuance of 849,065 common shares of the Company, $13,700 payable in cash, and $3,755 in additional deferred acquisition consideration and working capital adjustments. The purchase price allocations were based upon the respective fair values as of the respective acquisition dates. In conjunction with these transactions, the Company recorded $185 in transaction costs to general and administrative expenses.

The Company's purchase price allocations on the respective 2012 acquisitions were as follows:

Allocation of purchase price $000's	Petrotreat Inc.	ProDrill	Mega Fluids	Total
Current assets	210	3,880	1,210	5,300
Property and equipment	183	224	356	763
Intangible assets	620	2,200	2,040	4,860
Goodwill	2,214	5,802	7,817	15,833
Total assets	3,227	12,106	11,423	26,756
Current liabilities	(20)	-	(81)	(101)
Non-current portion of lease liabilities	-	-	(140)	(140)
Total liabilities	(20)	-	(221)	(241)
Net assets acquired	3,207	12,106	11,202	26,515
Consideration given $000's				
Cash	1,344	8,724	3,632	13,700
Share consideration	1,863	3,246	3,951	9,060
Consideration payable post-close and working capital adjustment	-	136	1,629	1,765
Deferred consideration	-	-	1,990	1,990
Total consideration	3,207	12,106	11,202	26,515

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

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2013, was $319,506 (2012 – $245,972). During the year ended December 31, 2013, the Company recorded $nil inventory valuation write-downs and $nil inventory valuation write-down reversals (2012 – $nil and $nil, respectively).

6. Property and Equipment

Property and equipment are comprised of the following balances:

$000's	Balance December 31, 2012	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2013
Cost:						
Buildings	17,119	14,957	12,833	(581)	1,329	45,657
Tanks	13,928	4,350	2,880	-	740	21,898
Vehicles	10,546	4,937	7,050	(2,008)	494	21,019
Trucks and trailers	12,102	11,453	6,884	(569)	435	30,305
Aircraft	819	5,497	11,719	-	431	18,466
Field equipment	8,175	4,490	3,332	(90)	682	16,589
Processing equipment	3,873	5,243	4,047	(1)	470	13,632
Land	2,106	1,339	319	(149)	109	3,724
Leasehold improvements	2,537	148	697	-	67	3,449
Furniture and fixtures	1,071	308	422	(40)	39	1,800
Computer equipment	1,412	1,562	1,588	(2)	113	4,673
	73,688	54,284	51,771	(3,440)	4,909	181,212

$000's	Balance December 31, 2012	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2013
Depreciation:					
Buildings	1,996	1,443	(63)	62	3,438
Tanks	1,321	1,046	-	138	2,505
Vehicles	3,580	3,988	(989)	156	6,735
Trucks and trailers	5,535	3,998	(151)	53	9,435
Aircraft	131	1,161	-	23	1,315
Field equipment	3,619	2,372	(44)	141	6,088
Processing equipment	586	1,005	-	39	1,630
Land	-	-	-	-	-
Leasehold improvements	805	503	-	34	1,342
Furniture and fixtures	459	256	(29)	14	700
Computer equipment	989	713	-	31	1,733
	19,021	16,485	(1,276)	691	34,921

$000's	Balance December 31, 2012	Balance December 31, 2013
Carrying amounts:		
Buildings	15,123	42,219
Tanks	12,607	19,393
Vehicles	6,966	14,284
Trucks and trailers	6,567	20,870
Aircraft	688	17,151
Field equipment	4,556	10,501
Processing equipment	3,287	12,002
Land	2,106	3,724
Leasehold improvements	1,732	2,107
Furniture and fixtures	612	1,100
Computer equipment	423	2,940
	54,667	146,291

$000's	Balance December 31, 2011	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2012
Cost:						
Buildings	12,143	30	5,064	-	(118)	17,119
Tanks	10,387	-	3,691	-	(150)	13,928
Vehicles	9,009	321	3,846	(2,556)	(74)	10,546
Trucks and trailers	10,286	8	2,012	(165)	(39)	12,102
Aircraft	829	-	-	(10)	-	819
Field equipment	6,120	340	1,872	(70)	(87)	8,175
Processing equipment	3,083	-	846	-	(56)	3,873
Land	1,670	-	459	-	(23)	2,106
Leasehold improvements	829	-	1,722	-	(14)	2,537
Furniture and fixtures	697	40	344	(4)	(6)	1,071
Computer equipment	1,186	24	215	(9)	(4)	1,412
	56,239	763	20,071	(2,814)	(571)	73,688

$000's	Balance December 31, 2011	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2012
Depreciation:					
Buildings	1,207	796	-	(7)	1,996
Tanks	662	668	-	(9)	1,321
Vehicles	2,725	2,213	(1,328)	(30)	3,580
Trucks and trailers	3,805	1,855	(117)	(8)	5,535
Aircraft	19			-	131
Field equipment	2,395	1,414	(7)	(71)	3,619
Processing equipment	298	292	-	(4)	586
Land	-	-	-	-	-
Leasehold improvements	432	378	-	(5)	805
Furniture and fixtures	316	147	(1)	(3)	459
Computer equipment	837	163	(8)	(3)	989
	12,696	7,926	(1,461)	(140)	19,021

$000's	Balance December 31, 2011	Balance December 31, 2012
Carrying amounts:		
Buildings	10,936	15,123
Tanks	9,725	12,607
Vehicles	6,284	6,966
Trucks and trailers	6,481	6,567
Aircraft	810	688
Field equipment	3,725	4,556
Processing equipment	2,785	3,287
Land	1,670	2,106
Leasehold improvements	397	1,732
Furniture and fixtures	381	612
Computer equipment	349	423
	43,543	54,667

Borrowing costs

For the year ended December 31, 2013, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $139 (2012 – $nil).

7. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

$000's	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2012	23,336	1,124	1,430	25,890	111,083
Additions through business combinations	23,663	1,045	48,630	73,338	150,843
Additions	-	2,349	750	3,099	-
Effect of movements in exchange rates	1,827	141	1,083	3,051	8,455
Balance at December 31, 2013	48,826	4,659	51,893	105,378	270,381
Amortization:					
Balance at December 31, 2012	8,739	834	396	9,969	-
Amortization for the year	5,271	714	4,470	10,455	-
Effect of movements in exchange rates	509	46	84	639	-
Balance at December 31, 2013	14,519	1,594	4,950	21,063	-
Carrying amount at December 31, 2013	**34,307**	**3,065**	**46,943**	**84,315**	**270,381**

$000's	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2011	18,846	953	1,344	21,143	96,226
Additions through business combinations	4,810	-	50	4,860	15,833
Additions	-	182	58	240	-
Effect of movements in exchange rates	(320)	(11)	(22)	(353)	(976)
Balance at December 31, 2012	23,336	1,124	1,430	25,890	111,083
Amortization:					
Balance at December 31, 2011	5,931	535	252	6,718	-
Amortization for the year	2,896	327	148	3,371	-
Effect of movements in exchange rates	(88)	(28)	(4)	(120)	-
Balance at December 31, 2012	8,739	834	396	9,969	-
Carrying amount at December 31, 2012	14,597	290	1,034	15,921	111,083

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's CGU's which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segment.

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

	As at	
$000's	**December 31, 2013**	December 31, 2012
Canadian Operations	**59,241**	57,929
U.S. Operations (1)	**211,140**	53,154
	270,381	111,083

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

The Company's impairment analysis as of December 31, 2013, indicated that the recoverable amount of the net assets for each CGU exceeded its respective carrying value and, therefore, no impairment was recorded. The recoverable amount of the CGU's was based on their value in use.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates for the sole purpose of the impairment analysis using pre-tax rates that reflect the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk free rate of return adjusted for the Company's estimated equity market risk premium and the Company's estimated cost of debt. The growth rates represent management's current assessment of future trends in the service industry and are based on both external and internal sources, as well as historical data. Future cash flows are based on various assumptions and judgments including actual performance of the business, management's estimates of future performance, and indicators of future service industry activity levels. It is unlikely that a change in a key assumption in the value-in-use calculation would cause the CGU's carrying amounts to exceed its recoverable amounts.

8. Long-Term Debt

On October 2, 2013, the Company completed a third amendment to its syndicated Senior Facility (the "Senior Facility") which allows the Company to borrow up to $150,000. 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 Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by $30,000 to a maximum borrowing of $180,000. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% to 1.25% or the Canadian Bankers Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.50% to 2.25%. The Senior Facility has a standby fee ranging from 0.34% to 0.51%. The applicable pricing margins are based on a sliding scale of senior funded debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

In conjunction with the Senior Facility, the following are the financial covenants imposed on CES:

- The ratio of total funded debt to EBITDA on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of senior funded debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis. The private placement financing of senior unsecured notes as noted below would not be included in the calculation of senior funded debt.
- The quarterly ratio of EBITDA to interest expense must be more than 3.00 to 1.00 calculated on a rolling four-quarter basis.

As at December 31, 2013, the Company was in compliance with the terms and covenants of its lending agreements. As of December 31, 2013, the maximum available draw on the Senior Facility was $150,000 (December 31, 2012 - $98,165). At December 31, 2013, the Company had a net draw of $84,001 on the Senior Facility (December 31, 2012 – $67,410), net of capitalized transaction costs of $384 (December 31, 2012 – $583). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

JACAM Acquisition Bridge Facility

In conjunction with the JACAM Acquisition, a bridge facility was obtained by the Company on February 26, 2013 (the "JACAM Acquisition Bridge Facility"), in the amount of $160,000 for the sole purpose of financing the closing of the JACAM Acquisition. The JACAM Acquisition Bridge Facility had a one year term and was repaid in full on April 17, 2013. The JACAM Acquisition Bridge Facility incurred commitment and other fees of $1,650 payable on the date of draw. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the year ended December 31, 2013 totaled $2,589.

Senior Notes
On April 17, 2013, CES completed the private placement of $225,000 of 7.375% senior unsecured notes due on April 17, 2020 (the "Senior Notes"). The Senior Notes were issued at par value. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. Interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt. At December 31, 2013, the estimated fair value of the Senior Notes was $233,719 (December 31, 2012 – $nil).

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

	As at	
$000's	**December 31, 2013**	December 31, 2012
Senior Facility	**84,385**	67,993
Senior Notes	**225,000**	-
Vehicle financing loans	**2,207**	2,362
Equipment financing loans	**1,162**	-
	312,754	70,355
Less net unamortized debt issue costs	**(3,961)**	(583)
Less current portion of long-term debt	**(1,955)**	(1,014)
Long-term debt	**306,838**	68,758

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 8.19%, with a weighted average rate of approximately 6.12%, and have termination dates ranging from January 2014 to December 2016. Equipment financing loans are secured by each related piece of equipment and incur interest at 17.25%, and have a termination date of April 2015.

For the year ended December 31, 2013, the Company recorded $18,113 (2012 – $3,351) in interest expense related to its long-term debt and lease balances, including the amortization of capitalized transaction costs.

Scheduled principal payments for the next five years at December 31, 2013, are as follows:

$000's	
2014	**1,955**
2015	**1,199**
2016	**84,600**
2017	-
2018	-
Total	**87,754**

9. Finance Leases

The Company leases equipment and vehicles under a number of finance lease agreements for which the underlying leased assets secure the lease obligations. The Company's floating interest rate equipment leases have a termination date of March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%. The Company's fixed interest rate equipment leases are for terms ranging from September 2015 to March 2016 with a weighted average interest rate on the Company's lease facilities of 4.95%. The Company's vehicle leases are for terms ranging from February 2014 through August 2017 with interest rates of up to 9.00% and a weighted average interest rate of approximately 5.98%. The carrying value of assets under finance leases at December 31, 2013 totaled $8,413 (December 31, 2012 – $6,902). Amortization expense relating to assets under finance leases for the year ended December 31, 2013 totaled $1,869 (2012 – $1,664).

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

	As at	
$000's	**December 31, 2013**	December 31, 2012
Finance lease obligations	**6,329**	5,407
Less current portion of finance lease obligations	**(3,124)**	(2,590)
Long-term finance lease obligations	**3,205**	2,817

10. Cost of Sales

Included in cost of sales for the year ended December 31, 2013, is depreciation charged on property and equipment of $15,084 (2012 – $7,419), and employee compensation and benefits of $70,254 (2012 – $38,194).

11. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2013, is depreciation charged on property and equipment and amortization charged on intangible assets of $11,856 (2012 – $3,878), stock-based compensation of $12,535 (2012 – $6,406), and employee compensation and benefits of $41,266 (2012 – $25,755).

12. Finance Costs

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

	Years Ended December 31,	
$000's	**2013**	2012
Foreign exchange loss	**523**	302
Financial derivative loss (gain)	**244**	(198)
Amortization of debt issue costs	**720**	186
Interest on debt	**17,684**	3,351
Less: capitalized interest	**(139)**	-
Finance costs	**19,032**	3,641

13. Income Taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and other foreign jurisdictions based on the taxable income or loss including the transactions entered into and recorded by the Company and based on the estimates and calculations used by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. The provision for corporate income taxes consists of:

	Year Ended December 31,	
$000's	**2013**	2012
Current income tax expense		
Current year income tax expense	**7,696**	13,343
Prior year income tax expense adjustment	**1,483**	-
Deferred income tax expense	**5,459**	2,678
Total income tax expense	**14,638**	16,021

The variation between the provision computed at the statutory income tax rate and the Company's provision is explained as follows:

$000's	Year Ended December 31, **2013**	2012
Income before taxes	**51,893**	43,890
Combined Canadian statutory rate	**25.53%**	25.48%
Provision for income taxes computed at the Canadian statutory rate	**13,255**	11,183
Effects on taxes resulting from		
Non-deductible expenses	**2,694**	2,102
Deductions for tax in excess of accounting, net	**(5,330)**	-
Adjustment of prior year taxes	**1,483**	-
Recoverable witholding taxes	**(291)**	-
Reduction of future income tax due to rate changes	**67**	(155)
Income tax in jurisdictions with different tax rates	**2,772**	2,920
Other	**(12)**	(29)
Income tax expense	**14,638**	16,021

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

$000's	As at **December 31, 2013**	December 31, 2012
Property and equipment	**10,594**	5,312
Goodwill and other intangible assets	**9,022**	4,770
Financing costs and other tax credits	**(1,785)**	(438)
Other temporary differences	**(2,705)**	-
Non-capital losses	**(134)**	(167)
Capital losses	**(5,502)**	(5,491)
Unrecognized tax benefit, net	**5,578**	5,589
Total, net future income tax (asset) liability	**15,068**	9,575
Deferred income tax asset	**5**	272
Deferred income tax liability	**15,073**	9,847

As at December 31, 2013, the Company had select US state tax operating loss carry forwards of $2,236 (December 31, 2012 – $2,574), which expire between 2023 and 2024. No deferred tax benefit has been recognized on the select US state operating loss carry forwards of $1,078 (December 31, 2012 – $1,082) due to the uncertainty of the realization of these losses.

As at December 31, 2013, the Company also had capital loss carry forward pools of $21,552 (December 31, 2012 - $21,552) that can only be used to offset capital gains in future years. Due to the uncertainty over realization of the respective pools, no deferred income tax asset has been recognized in relation to these capital loss carry forward pools.

14. Share Capital

a) Authorized

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

b) Issued and outstanding

A summary of the changes to common share capital is presented below:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
***Common Shares** ($000's except number of shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**56,847,853**	**215,571**	55,138,435	200,412
Issued pursuant to the Offering, net of share issue costs and taxes	**2,110,000**	**33,472**	-	-
Consideration for business combinations	**6,292,621**	**74,200**	849,065	9,060
Issued pursuant to stock-based compensation	**1,567,560**	**7,008**	860,353	3,609
Contributed surplus related to stock-based compensation	**-**	**7,199**	-	2,490
Issued pursuant to property and equipment acquisition	**238,108**	**4,153**	-	-
Issued pursuant to stock dividend and stock settled director fee	**50,986**	**929**	-	-
Balance, end of year	**67,107,128**	**342,532**	56,847,853	215,571

Prospectus Offering

On August 8, 2013, the Company, through a syndicate of underwriters, completed a bought deal short-form prospectus offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued a total of 2,110,000 common shares of the Company for gross proceeds of $35,026. Net proceeds, after expenses and commission of approximately $2,088, were $32,938.

Stock dividend and stock settled director fee

On June 20, 2013, shareholders of the Company approved a stock dividend program and a stock settled director fee program. The stock dividend program provides Company shareholders the opportunity to receive their dividend payments in the form of common shares. The stock settled director fee program provides Company directors the opportunity to receive their director fees in the form of common shares. The number of shares issued to settle the Company'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.

c) Net income per share

In calculating the basic and diluted net income per share for the years ended December 31, 2013 and 2012, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
$000's, except share and per share amounts	**2013**	2012
Net income	**37,255**	27,869
Weighted average number of shares outstanding:		
Basic shares outstanding	**63,495,340**	55,693,220
Effect of dilutive shares	**2,544,947**	1,702,112
Diluted shares outstanding	**66,040,287**	57,395,332
Net income per share - basic	**$0.59**	$0.50
Net income per share - diluted	**$0.56**	$0.49

Excluded from the calculation of dilutive shares for the year ended December 31, 2013, is 597,000 Share Rights (2012 – 83,087) that are considered anti-dilutive.

15. Stock-Based Compensation

As at December 31, 2013, a total of 6,710,713 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 2,462,446 common shares remained available for grant. For the year ended December 31, 2013, stock compensation expense of $12,535 (2012 – $6,406) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

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

a) Share Rights Incentive Plan ("SRIP")

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

A summary of changes under the SRIP is presented below:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**2,920,088**	**$7.65**	2,987,602	$6.20
Granted during the year	**642,000**	**20.88**	815,087	10.78
Exercised during the year	**(1,085,801)**	**6.31**	(678,601)	5.14
Forfeited during the year	**(84,739)**	**9.80**	(204,000)	5.88
Balance, end of year	**2,391,548**	**$11.53**	2,920,088	$7.65
Exercisable Share Rights, end of year	**1,162,200**	**$6.78**	962,500	$6.47

The compensation costs for Share Rights granted during year ended December 31, 2013, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2013
Risk-free interest rate	**1.30%**
Expected average life of Share Rights	**3.25 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.30%**
Dividend yield	**3.60%**
Expected volatility	**34.99%**
Weighted average fair value per Share Right	**$4.07**

The following table summarizes information about the outstanding grants under the Company's SRIP as at December 31, 2013:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$4.24 - $5.91	125,000	4.93	1.31	125,000	4.93
$5.92 - $8.25	840,500	6.17	1.76	840,500	6.17
$8.26-$10.70	246,000	10.49	3.14	96,000	10.46
$10.71 - $18.16	592,048	10.99	3.72	100,700	10.71
$18.17 - $21.75	588,000	21.58	4.94	-	-
	2,391,548	$11.53	3.15	1,162,200	$6.78

b) Restricted Share Unit ("RSU") Plan

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

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

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**741,510**	**$11.57**	310,030	$10.84
Granted during the year	**1,296,287**	**15.41**	525,006	11.86
Reinvested during the year	**53,229**	**12.24**	30,826	11.66
Vested during the year	**(424,155)**	**11.90**	(124,352)	10.87
Forfeited during the year	**(9,371)**	**10.70**	-	-
Balance, end of year	**1,657,500**	**$14.52**	741,510	$11.57

The weighted average fair value of RSUs granted during the year ended December 31, 2013, was $15.41 per RSU (2012 - $11.86). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the year ended December 31, 2013, was reduced by an estimated weighted average forfeiture rate of 4.53% per year at the date of grant.

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

CES' SRIP took effect on January 1, 2010 and all prior grants made under the Option Plan remained in effect based on the terms and conditions of the original grant. At December 31, 2013, all options granted under the Option Plan had been fully exercised and the plan ceased to exist. A summary of changes under the Option Plan is presented below:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of year	**57,600**	**$2.79**	115,000	$2.43
Exercised during the year	**(57,600)**	**2.79**	(57,400)	2.07
Balance, end of year	**-**	**-**	57,600	$2.79
Exercisable options, end of year	**-**	**-**	57,600	$2.79

16. Contributed Surplus

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

$000's	**Year Ended December 31, 2013**	Year Ended December 31, 2012
Contributed surplus, beginning of year	**8,051**	4,135
Reclassified pursuant to stock-based compensation	**(7,199)**	(2,490)
Stock-based compensation expense	**12,535**	6,406
Contributed surplus, end of year	**13,387**	8,051

17. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2013, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	$0.055	**3,133**
February	Feb 28	Mar 15	0.055	**3,133**
March	Mar 28	Apr 15	0.055	**3,446**
April	Apr 30	May 15	0.055	**3,450**
May	May 31	Jun 14	0.055	**3,467**
June	Jun 28	Jul 15	0.055	**3,469**
July	Jul 31	Aug 15	0.055	**3,518**
August	Aug 30	Sep 13	0.060	**3,980**
September	Sep 30	Oct 15	0.060	**3,993**
October	Oct 31	Nov 15	0.060	**4,010**
November	Nov 30	Dec 14	0.065	**4,358**
December	Dec 31	Jan 13	0.065	**4,362**
Total dividends declared during the year			$0.695	**44,319**

Subsequent to December 31, 2013, the Company declared dividends to holders of common shares in the amount of $0.065 per common share payable on February 14, 2014 and March 14, 2014, for shareholders of record on January 31, 2014 and February 28, 2014, respectively.

18. Commitments

The Company has commitments with payments due as follows:

$000's	2014	2015	2016	2017	2018	Total
Office and facility rent	3,572	2,902	2,279	1,168	100	**10,021**

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

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

19. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at December 31, 2013 with that as at December 31, 2012 with the exception of the new Senior Notes and deferred acquisition consideration. The carrying values of accounts receivable, income taxes receivable, accounts payable and accrued liabilities, income taxes payable, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value. The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on December 31, 2013. The estimated fair value of the Senior Notes is based on level 2 inputs as the inputs are observable through correlation with market data.

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

$000's	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2013					
Financial derivative liability	171	171	-	171	-
Total	171	171	-	171	-
As at December 31, 2012					
Financial derivative asset	41	41	-	41	-
Total	41	41	-	41	-

b) Credit risk

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

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

	As at	
$000's	**December 31, 2013**	December 31, 2012
Past due 61-90 days	**18,414**	3,567
Past due 91-120 days	**5,862**	2,484
Past 120 days	**2,598**	2,313
Total past due	**26,874**	8,364

The Company reduces an account receivable to its estimated recoverable amount. At December 31, 2013, the Company had recorded a provision of $508 (December 31, 2012 – $404) relating to accounts receivable which may not be collectible. The change in the provision for doubtful accounts is as follows:

	As at	
$000's	**December 31, 2013**	December 31, 2012
Balance, beginning of year	**404**	209
Additional allowance	**276**	376
Amounts used	**(172)**	(181)
Balance, end of year	**508**	404

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2013, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $554 lower/higher for the respective year ended December 31, 2013 (2012 – $615 lower/higher).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Company uses the US dollar as its functional currency for the operations of AES Drillings Fluids Holdings, LLC and those in other foreign jurisdictions, as appropriate. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2013, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease/increase net income by approximately $383 (2012 – decrease/increase $341).

At December 31, 2013, the Company had entered into the following foreign exchange U.S. dollar forward sale contracts to manage its exposure to upcoming U.S. dollar denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
January 2014	US$700	Deliverable Forward	Physical Sale	$1.0357
February 2014	US$700	Deliverable Forward	Physical Sale	$1.0364
March 2014	US$700	Deliverable Forward	Physical Sale	$1.0370
April 2014	US$700	Deliverable Forward	Physical Sale	$1.0377
May 2014	US$700	Deliverable Forward	Physical Sale	$1.0365
June 2014	US$700	Deliverable Forward	Physical Sale	$1.0480
July 2014	US$700	Deliverable Forward	Physical Sale	$1.0493
August 2014	US$700	Deliverable Forward	Physical Sale	$1.0500
September 2014	US$700	Deliverable Forward	Physical Sale	$1.0513
October 2014	US$700	Deliverable Forward	Physical Sale	$1.0521
November 2014	US$700	Deliverable Forward	Physical Sale	$1.0605
December 2014	US$700	Deliverable Forward	Physical Sale	$1.0748
Total	US$8,400			$1.0474

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

For the year ended December 31, 2013, the Company recorded a realized loss of $31 (2012 – loss of $38) relating to all of its foreign currency derivative contracts. For the year ended December 31, 2013, the Company recorded an unrealized loss of $212 (2012 – unrealized gain of $236) relating to its foreign currency derivative contracts. As of December 31, 2013, the fair value of these outstanding risk management contracts result in a net financial derivative liability of $171 (December 31, 2012 – net asset of $41). At December 31, 2013, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to result in a change to net income of $89 (2012 – increase/decrease by $23) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2013, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk

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

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2013:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	88,066	-	-	-	-	**88,066**
Dividends payable [2]	4,362	-	-	-	-	**4,362**
Deferred acquisition consideration	-	10,878	10,423	2,300	-	**23,601**
Senior Unsecured Notes	-	-	-	-	225,000	**225,000**
Long-term debt at fixed interest rates [3]	317	1,638	1,183	231	-	**3,369**
Long-term debt at floating interest rates [3]	-	-	-	84,385	-	**84,385**
Finance lease obligations at fixed interest rates [3]	128	654	677	67	-	**1,526**
Finance lease obligations at floating interest rates [3]	419	1,923	1,941	520	-	**4,803**
Office operating leases	733	2,839	2,902	3,547	-	**10,021**
Total	94,025	17,932	17,126	91,050	225,000	**445,133**

Notes:

[1] *Payments denominated in foreign currencies have been translated at the respective year end exchange rate*

[2] *Dividends declared as of December 31, 2013*

[3] *Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion*

20. Capital Management

The capital structure of the Company changed significantly in 2013 with the addition of the Senior Notes issued in April 2013. For the year ended December 31, 2013, the Company considers capital to include shareholders' equity and long-term debt (including current portion). The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk while providing shareholders with a sustainable and prudent level of dividends.

The overall capitalization of the Company is as follows:

	As at	
$000's	**December 31, 2013**	December 31, 2012
Long-term debt [1]	**312,754**	70,355
Shareholders' equity	**360,519**	215,420
Total capitalization	**673,273**	285,775

[1] *Includes: Senior Notes and current portion of long-term debt*

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

In addition to monitoring the externally imposed capital requirements as detailed in note 8, the Company manages capital by analyzing working capital levels, forecasted cash flows, planned investments in property and equipment, and general economic conditions. As at December 31, 2013, the Company is in compliance with all of the financial requirements under all its lending agreements.

21. Supplemental Information

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

	Years Ended December 31,	
$000's	**2013**	2012
Decrease (increase) in current assets		
Accounts receivable	**(77,956)**	58,690
Inventory	**(12,019)**	970
Prepaid expenses	**(2,921)**	950
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**29,440**	(23,320)
	(63,456)	37,290
Relating to:		
Operating activities	**(63,941)**	38,787
Investing activities	**485**	(1,497)

For the years ended December 31, 2013 and 2012, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

22. Geographical Information

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

	Revenue Year Ended December 31,	
$000's	**2013**	2012
Canada	**242,676**	204,561
United States	**420,142**	266,738
Total	**662,818**	471,299

	Long-Term Assets [1]	
$000's	**December 31, 2013**	December 31, 2012
Canada	**118,560**	90,405
United States	**382,427**	91,266
Total	**500,987**	181,671

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

23. Related Parties

During the year ended December 31, 2013, the Company purchased equipment that was previously rented from a company controlled by the spouse of one of the Company's directors. The aggregate purchase price of the equipment was $1,471 and was satisfied through the issuance of a two year promissory note. During the year ended December 31, 2013, the Company made rental and principal payments in the amount of $2,276 (2012 - $737). As at December 31, 2013, the Company had an outstanding liability of $1,162 (December 31, 2012 - $nil) for the remaining payments.

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

For the year ended December 31, 2013, lease payments on equipment and office leases in the amount of $147 (2012 - $81) were made for rental agreements CES has with companies controlled by a director and insiders of the Company.

During the year ended December 31, 2013, the Company acquired property and equipment from a company controlled by one of the Company's employees and insiders. The aggregate purchase price was $5,393, consisting of $1,240 in cash paid on the date of the transaction and $4,153 in share consideration satisfied through the issuance of 238,108 common shares of the Company.

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2013, remuneration of $14,790 included $8,533 of salaries and cash-based compensation and $6,257 of stock-based compensation costs (December 31, 2012 – $7,537 and $2,600, respectively).

These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

24. Significant Subsidiaries

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

Subsidiary Name	Country of Incorporation	Ownership Interest % December 31, 2013	Ownership Interest % December 31, 2012
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

25. Economic Dependence

For the year ended December 31, 2013, one customer accounted for 16% (2012 – 16%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

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[1]Member of the Audit Committee
[2]Member of the Governance and Compensation Committee
[3]Member of the Health, Safety and Environment Committee

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