Canadian Energy Services

Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Financial Position (unaudited)
(stated in thousands of Canadian dollars)

	As at	
	June 30, 2013	December 31, 2012
ASSETS		
Current assets		
Accounts receivable	**131,566**	107,112
Financial derivative asset	**-**	41
Inventory	**75,694**	61,382
Prepaid expenses	**3,435**	4,164
	210,695	172,699
Property and equipment (note 4)	**112,197**	54,667
Intangible assets	**82,116**	15,921
Deferred income tax asset	**1,445**	272
Goodwill	**234,032**	111,083
	640,485	354,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**51,373**	43,181
Financial derivative liability	**166**	-
Dividends payable (note 8)	**3,469**	3,127
Income taxes payable	**-**	7,888
Current portion of long-term debt (note 5)	**1,040**	1,014
Current portion of finance lease obligations	**3,111**	2,590
	59,159	57,800
Long-term debt (note 5)	**274,138**	68,758
Finance lease obligations	**3,291**	2,817
Deferred income tax liability	**13,487**	9,847
	350,075	139,222
Commitments (note 9)		
Shareholders' equity		
Common shares (note 6)	**283,639**	215,571
Contributed surplus	**8,916**	8,051
Deficit	**(11,565)**	(3,285)
Accumulated other comprehensive income (loss)	**9,420**	(4,917)
	290,410	215,420
	640,485	354,642

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

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Comprehensive Income (unaudited)
(stated in thousands of Canadian dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
Revenue	**130,666**	104,129	**279,975**	260,686
Cost of sales	**99,251**	80,606	**210,499**	199,805
Gross margin	**31,415**	23,523	**69,476**	60,881
General and administrative expenses	**22,916**	15,194	**44,208**	31,381
Operating profit	**8,499**	8,329	**25,268**	29,500
Finance costs	**4,921**	1,053	**8,236**	1,968
Income before taxes	**3,578**	7,276	**17,032**	27,532
Current income tax (recovery) expense	**(796)**	3,153	**1,835**	9,108
Deferred income tax expense	**2,515**	755	**3,379**	1,354
Net income	**1,859**	3,368	**11,818**	17,070
Other comprehensive gain:				
Unrealized foreign exchange gain on translation of foreign operations	**13,102**	2,372	**14,337**	235
Comprehensive income	**14,961**	5,740	**26,155**	17,305
Net income per share (note 6)				
Basic	**0.03**	0.06	**0.19**	0.31
Diluted	**0.03**	0.06	**0.19**	0.30

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Canadian Energy Services & Technology Corp.

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

	Six Months Ended June 30,	
	2013	2012
COMMON SHARES		
Balance, beginning of period	**215,571**	200,412
Issued pursuant to stock-based compensation (note 6)	**7,032**	2,534
Consideration for acquired businesses (note 3)	**61,036**	1,863
Balance, end of period	**283,639**	204,809
CONTRIBUTED SURPLUS		
Balance, beginning of period	**8,051**	4,135
Reclassified pursuant to stock-based compensation (note 6)	**(3,827)**	(624)
Stock-based compensation expense (note 7)	**4,692**	2,806
Balance, end of period	**8,916**	6,317
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of period	**(4,917)**	(2,809)
Unrealized foreign exchange gain on translation of foreign operations	**14,337**	235
Balance, end of period	**9,420**	(2,574)
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of period	**(3,285)**	2,322
Net income	**11,818**	17,070
Dividends declared (note 8)	**(20,098)**	(16,080)
Balance, end of period	**(11,565)**	3,312
	290,410	211,864

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

Canadian Energy Services & Technology Corp.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income for the period	**1,859**	3,368	**11,818**	17,070
Adjustments for:				
Depreciation and amortization	**6,098**	2,870	**10,943**	5,451
Stock-based compensation	**2,550**	1,715	**4,692**	2,806
Non-cash finance costs (income)	**430**	4	**536**	(3)
Deferred income tax expense	**2,515**	755	**3,379**	1,354
(Gain) loss on disposal of assets	**(78)**	18	**(122)**	(120)
Change in non-cash working capital (note 10)	**6,173**	14,554	**(13,133)**	6,258
	19,547	23,284	**18,113**	32,816
FINANCING ACTIVITIES:				
Repayment of the JACAM Acquisition Bridge Facility (note 5)	**(160,000)**	-	**-**	-
Repayment of promissory note payable (note 3)	**(10,255)**	-	**-**	-
Repayment of long-term debt and finance leases	**(1,184)**	(1,071)	**(2,384)**	(1,882)
Net proceeds from Senior Notes issuance (note 5)	**219,652**	-	**219,652**	-
Decrease in Amended Senior Facility	**(50,481)**	(10,186)	**(16,433)**	(6,832)
Shareholder dividends	**(10,363)**	(8,324)	**(19,756)**	(15,777)
Issuance of shares, net of issuance costs	**2,487**	1,456	**3,205**	1,909
Issuance of long-term debt and lease proceeds	**-**	-	**-**	1,470
	(10,144)	(18,125)	**174,029**	(21,112)
INVESTING ACTIVITIES:				
Investment in property and equipment	**(8,627)**	(5,321)	**(17,460)**	(10,935)
Investment in intangible assets	**(1,284)**	(48)	**(1,320)**	(150)
Business combinations (note 3)	**-**	-	**(174,290)**	(1,344)
Proceeds on disposal of property and equipment	**508**	210	**928**	725
	(9,403)	(5,159)	**(192,142)**	(11,704)
CHANGE IN CASH	**-**	-	**-**	-
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**-**	-	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**1,251**	1,034	**4,405**	2,036
Income taxes paid	**12,236**	3,138	**13,648**	3,175

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

1. The Company

Canadian Energy Services & Technology Corp. is a company domiciled in Canada. These unaudited condensed consolidated financial statements of the Company as at June 30, 2013 and for the three and six months ended June 30, 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: CES, Moose Mountain Mud, AES Drilling Fluids ("AES"), Venture Mud ("Venture"), PureChem, JACAM Chemicals ("JACAM"), Clear Environmental Solutions ("Clear"), and Equal Transport ("EQUAL").

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 through the recent acquisition of Venture Mud (note 12) and JACAM (note 3).

2. Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard ("IAS") 34, "*Interim Financial Reporting*" ("IAS 34"), following the same accounting principles and methods of computation as outlined in the Company's consolidated financial statements for the year ended December 31, 2012, with the exception of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board ("IASB"), which were adopted effective January 1, 2013. These are as follows: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*", IFRS 13, "*Fair Value Measurement*", as well as the amendments to IAS 28, "*Investments in Associates and Joint Ventures",* IAS 27, "*Separate Financial Statements*", and IAS 1, "*Presentation of Financial Statements*". The adoption of these amendments and standards has not had a material impact on the accounting policies, methods of computation or presentation applied by the Company.

These unaudited condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2012. These unaudited condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on August 14, 2013.

3. JACAM Acquisition

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 approximately $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 after 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 $843 in transaction costs to general and administrative expenses.

The preliminary purchase price allocation is as follows:

Allocation of purchase price $000's	
Current assets	25,900
Property and equipment	42,834
Intangible assets	66,227
Goodwill	116,951
Total assets	**251,912**
Current liabilities	(6,127)
Current portion of lease liabilities	(42)
Non-current portion of lease liabilities	(132)
Total liabilities	**(6,301)**
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**

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

4. Property and Equipment

Property and equipment are comprised of the following balances:

	As at June 30, 2013			As at December 31, 2012		
$000's	**Cost**	**Accumulated Depreciation**	**Carrying Value**	Cost	Accumulated Depreciation	Carrying Value
Buildings	**34,227**	**(2,647)**	**31,580**	17,119	(1,996)	15,123
Tanks	**17,235**	**(1,820)**	**15,415**	13,928	(1,321)	12,607
Trucks and trailers	**21,556**	**(7,125)**	**14,431**	12,102	(5,535)	6,567
Aircraft	**12,710**	**(550)**	**12,160**	819	(131)	688
Field equipment	**16,789**	**(4,724)**	**12,065**	8,175	(3,619)	4,556
Vehicles	**16,625**	**(4,879)**	**11,746**	10,546	(3,580)	6,966
Processing equipment	**8,062**	**(1,040)**	**7,022**	3,873	(586)	3,287
Land	**3,023**	**-**	**3,023**	2,106	-	2,106
Computer equipment	**3,297**	**(1,266)**	**2,031**	1,412	(989)	423
Leasehold improvements	**2,871**	**(1,075)**	**1,796**	2,537	(805)	1,732
Furniture and fixtures	**1,512**	**(584)**	**928**	1,071	(459)	612
	137,907	**(25,710)**	**112,197**	73,688	(19,021)	54,667

5. Long-Term Debt

On February 26, 2013, the Company completed an amendment to its existing Senior Facility ("Amended Senior Facility") pursuant to the JACAM Acquisition. The Amended Senior Facility includes the previous Senior Facility and a new JACAM Acquisition Bridge Facility, which was repaid in full on April 17, 2013. With the exception of the change to the Company's debt covenants detailed below, the terms and conditions of Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

Amended Senior Facility

The Amended Senior Facility allows the Company to borrow up to $150,000, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30,000 to a maximum borrowing of $180,000, subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Amended Senior Facility incur interest at the bank's Canadian prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 2.25%, or the Canadian Bankers Acceptance rate or the US LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%. The applicable pricing margins are based on a sliding scale of senior funded debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

In conjunction with the Amended Senior Facility, the following are some of the key 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 current assets to current liabilities ratio must not be less than 1.25 to 1.00. For purposes of this calculation, the JACAM Acquisition Bridge Facility was excluded in the computation of current liabilities when it was outstanding.
- 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 of June 30, 2013, based on eligible accounts receivable, inventory, and capital asset balances, the maximum available draw on the Amended Senior Facility was $135,837 (December 31, 2012 - $98,165). At June 30, 2013, the Company had a net draw of $51,867 on the Amended Senior Facility (December 31, 2012 – $67,410), net of capitalized transaction costs of $452 (December 31, 2012 – $583). Transaction costs attributable to the Amended Senior Facility are recorded as part of the Amended Senior Facility and amortized to finance costs over the remaining term.

JACAM Acquisition Bridge Facility

The JACAM Acquisition Bridge Facility was a bridge facility that was obtained by the Company on February 26, 2013 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. Amounts drawn on the JACAM Acquisition Bridge Facility incurred interest at the Banker's Acceptance Rate of 3.00% which rose in quarterly increments up to 5.50%. The JACAM Acquisition Bridge Facility was also subject to quarterly duration fees on amounts outstanding on the JACAM Acquisition Bridge Facility rising from 25 basis points to 75 basis points. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the three and six months ended June 30, 2013 totaled $327 and $2,589, respectively.

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, 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.

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

	As at	
$000's	**June 30, 2013**	December 31, 2012
Amended Senior Facility	**52,319**	67,410
Senior Notes	**225,000**	-
Vehicle financing loans	**2,125**	2,362
	279,444	69,772
Less net unamortized debt issue costs	**(4,266)**	-
Less current portion of long-term debt	**(1,040)**	(1,014)
Long-term debt	**274,138**	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 5.98%, and have termination dates ranging from July 2013 to October 2016.

For the three and six months ended June 30, 2013, the Company recorded $4,838 and $7,987, respectively (2012 – $995 and $1,970, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments for the next five years at June 30, 2013, are as follows:

$000's	
2013 - 6 months	**542**
2014	**980**
2015	**52,896**
2016	**26**
2017	**-**
Total	**54,444**

6. 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:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
Common Shares *($000's except shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of period	**56,847,853**	**215,571**	55,138,435	200,412
Consideration for acquired business	**5,454,545**	**61,036**	849,065	9,060
Issued pursuant to stock-based compensation	**777,938**	**3,205**	860,353	3,609
Contributed surplus related to stock-based compensation	**-**	**3,827**	-	2,490
Balance, end of period	**63,080,336**	**283,639**	56,847,853	215,571

On June 20, 2013, shareholders of the Company approved a stock dividend program that provides Company shareholders the opportunity to receive dividend payments in the form of common shares. Dividends are declared in an amount expressed in dollars per common share at the option of the shareholder and are paid by way of the issuance of a fraction of a common share per outstanding common share determined by dividing the dollar amount of the dividend per common share by the volume weighted average trading price of the common shares on the principal stock exchange on which the common shares are traded. The volume weighted average trading price of the common shares is calculated by dividing the total value of common shares traded by the total volume of commons shares traded over the five trading day period immediately prior to the payment date of the applicable dividend payment.

c) Net income per share
In calculating the basic and diluted net income per share for the three and six months ended June 30, 2013 and 2012, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's, except share and per share amounts	**2013**	2012	**2013**	2012
Net income	**1,859**	3,368	**11,818**	17,070
Weighted average number of shares outstanding:				
Basic shares outstanding	**62,861,231**	55,567,426	**60,884,491**	55,411,615
Effect of dilutive securities	**2,385,283**	1,760,507	**2,175,735**	1,803,646
Diluted shares outstanding	**65,246,514**	57,327,933	**63,060,226**	57,215,261
Net income per share - basic	**$0.03**	$0.06	**$0.19**	$0.31
Net income per share - diluted	**$0.03**	$0.06	**$0.19**	$0.30

There are no anti dilutive Share Rights excluded from the calculation of dilutive securities for the three and six months ended June 30, 2013 (2012 –83,087 and 53,087, respectively).

7. Stock-Based Compensation
As at June 30, 2013, a total of 6,308,034 common shares were reserved for issuance under the Company’s Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan, of which 2,719,606 common shares remained available for grant. For the three and six months ended June 30, 2013, stock compensation expense of $2,550 and $4,692, respectively (2012 – $1,715 and $2,806, respectively) was recorded in general and administrative expenses relating to the Company’s stock-based compensation plans.

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

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of period	**57,600**	**$2.79**	115,000	$2.43
Exercised during the period	**(32,600)**	**2.81**	(57,400)	2.07
Balance, end of period	**25,000**	**$2.77**	57,600	$2.79
Exercisable options, end of period	**25,000**	**$2.77**	57,600	$2.79

b) Share Rights Incentive Plan (“SRIP”)
CES’ SRIP provides incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights 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.

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

A summary of changes under the SRIP is presented below:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of period	**2,920,088**	**$7.65**	2,987,602	$6.20
Granted during the period	**45,000**	**12.41**	815,087	10.78
Exercised during the period	**(529,501)**	**5.88**	(678,601)	5.14
Forfeited during the period	**(84,739)**	**9.80**	(204,000)	5.88
Balance, end of period	**2,350,848**	**$8.00**	2,920,088	$7.65
Exercisable Share Rights, end of period	**828,000**	**$6.43**	962,500	$6.47

The compensation costs for Share Rights granted during the six months ended June 30, 2013, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Six Months Ended June 30, 2013
Risk-free interest rate	**1.15%**
Expected average life of Share Rights	**3.25 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.06%**
Dividend yield	**3.41%**
Expected volatility	**36.37%**
Weighted average fair value per Share Right	**$2.56**

The following table summarizes information about the outstanding grants under the Company's Share Rights Incentive Plan and Option Plan as at June 30, 2013:

	Options & Share Rights Outstanding			Options & Share Rights Exercisable	
Range of exercise prices	Options and Share Rights	Weighted average exercise price	Weighted average term remaining in years	Options and Share Rights	Weighted average exercise price
$2.77 - $4.23	25,000	2.77	0.67	25,000	2.77
$4.24 - $5.25	135,000	4.82	1.78	135,000	4.82
$5.26 - $5.91	36,000	5.66	2.04	18,000	5.66
$5.92 - $8.25	1,201,500	6.17	2.26	585,000	6.17
$8.26 - $10.74	882,000	10.64	4.05	72,000	10.33
$10.75 - $12.90	96,348	12.07	3.79	18,000	12.03
	2,375,848	$7.95	2.94	853,000	$6.32

c) Restricted Share Unit Plan ("RSU")

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 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:

	Six Months Ended June 30, 2013		Year Ended December 31, 2012	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of period	**741,510**	**$11.57**	310,030	$10.84
Granted during the period	**671,231**	**11.93**	525,006	11.86
Reinvested during the period	**25,035**	**11.52**	30,826	11.66
Vested during the period	**(215,837)**	**13.01**	(124,352)	10.87
Forfeited during the period	**(9,360)**	**10.70**	-	-
Balance, end of period	**1,212,579**	**$11.52**	741,510	$11.57

On March 12, 2013, the Company's Board of Directors approved grants of 612,542 RSUs with a fair value per RSU of $11.80 to selected employees and officers. During the second quarter, the Company's Board of Directors also approved a grant of 58,689 RSUs with a fair value per RSU of $13.21 to selected employees and directors on May 13, 2013. 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 six months ended June 30, 2013 is reduced by an estimated weighted average forfeiture rate of 6.57% per year at the date of grant.

8. Dividends

The Company declared dividends to holders of common shares for the six months ended June 30, 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**
Total dividends declared during the period			$0.330	**20,098**

Subsequent to June 30, 2013, the Company declared dividends to holders of common shares in the amount of $0.055 per common share payable on August 15, 2013, for shareholders of record on July 31, 2013.

9. Commitments

The Company has commitments with payments due as follows:

$000's	**2013 - 6 months**	**2014**	**2015**	**2016**	**2017**	**Total**
Office and facility rent	1,434	2,096	1,900	1,445	757	**7,632**

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

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

10. Supplemental Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2013**	2012	**2013**	2012
Decrease (increase) in current assets				
Accounts receivable	**36,153**	50,347	**(3,584)**	43,016
Inventory	**(854)**	(11,564)	**(3,206)**	(14,627)
Prepaid expenses	**1,431**	1,168	**1,323**	2,087
Decrease in current liabilities				
Accounts payable and accrued liabilities	**(30,289)**	(26,103)	**(7,392)**	(24,616)
	6,441	13,848	**(12,859)**	5,860
Relating to:				
Operating activities	**6,173**	14,554	**(13,133)**	6,258
Investing activities	**268**	(706)	**274**	(398)

For the three and six months ended June 30, 2013 and 2012, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Condensed Consolidated Statements of Cash Flows.

11. Segmented Information

In the first quarter of 2013 and commensurate with the JACAM Acquisition, CES has re-aligned its operating segments resulting in one operating and reporting segment. CES' business is to be the leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total chemical 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. Relevant information for this segment is included throughout these unaudited condensed consolidated financial statements.

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

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2013**	2012	**2013**	2012
Canada	**31,698**	31,453	**99,075**	110,930
United States	**98,968**	72,676	**180,900**	149,756
Total	**130,666**	104,129	**279,975**	260,686

	Long-Term Assets [1]	
$000's	**June 30, 2013**	December 31, 2012
Canada	**109,356**	90,405
United States	**318,989**	91,266
Total	**428,345**	181,671

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

12. Related Parties

For the three and six months ended June 30, 2013, lease and rental payments in the amount of $392 and $806, respectively, (2012 - $127 and $226, respectively) were made for equipment rentals to a company controlled by the spouse of one of the Company's directors. As at June 30, 2013, the Company recorded a lease liability of $1,493 (December 31, 2012 - $nil) for the remaining lease payments. 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.

13. Subsequent Events

Venture Mud Acquisition

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 "Venture Mud Acquisition"). Venture Mud is 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 Venture Mud Acquisition was July 1, 2013. The aggregate purchase price was approximately US$55,200 consisting of US$12,700 in share consideration satisfied through the issuance of 838,076 common shares of the Company, and US$42,500 payable in cash, of which US$19,500 was paid on the transaction date. Included in the cash consideration is US$18,000 which is payable as an earn-out upon the Venture Mud division achieving certain EBITDA thresholds over a twenty-four month period post close and $5,000 in other deferred consideration.

The Company will report a preliminary purchase price allocation in the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2013.

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 offering expenses and underwriter's commission of approximately $2,001, were $33,025.

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

BOARD OF DIRECTORS
Kyle D. Kitagawa[1]
Chairman

Colin D. Boyer[1, 2]

John M. Hooks[2]

D. Michael G. Stewart[1,3]

Thomas J. Simons

Rodney Carpenter[3]

James (Jim) G. Sherman

Jason West

[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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President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Jason Waugh
Vice President

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte LLP
Chartered Accountants, Calgary, AB

BANKERS
HSBC Bank Canada, Calgary, AB

SOLICITORS
Torys LLP, Calgary, AB
Crowe & Dunlevy, Oklahoma City, OK

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