Canadian Energy
SERVICES

# Condensed Consolidated Financial Statements

**For the Three Months Ended March 31, 2013**

## Canadian Energy Services & Technology Corp.

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

| | As at | |
|---|---|---|
| | **March 31, 2013** | December 31, 2012 |
| ASSETS | | |
| Current assets | | |
| Accounts receivable | **164,658** | 107,112 |
| Financial derivative asset | **9** | 41 |
| Inventory | **72,995** | 61,382 |
| Prepaid expenses | **4,800** | 4,164 |
| | **242,462** | 172,699 |
| Property and equipment (note 4) | **103,357** | 54,667 |
| Intangible assets | **80,951** | 15,921 |
| Deferred income tax asset | **238** | 272 |
| Goodwill | **228,160** | 111,083 |
| | **655,168** | 354,642 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **71,552** | 43,181 |
| Dividends payable (note 8) | **3,446** | 3,127 |
| Income taxes payable | **9,136** | 7,888 |
| JACAM Acquisition Bridge Facility (note 5) | **160,000** | - |
| Promissory note payable (note 3) | **10,160** | - |
| Current portion of long-term debt (note 5) | **1,100** | 1,014 |
| Current portion of finance lease obligations | **2,531** | 2,590 |
| | **257,925** | 57,800 |
| Long-term debt (note 5) | **102,799** | 68,758 |
| Finance lease obligations | **2,825** | 2,817 |
| Deferred income tax liability | **10,821** | 9,847 |
| | **374,370** | 139,222 |
| Commitments (note 9) | | |
| Shareholders' equity | | |
| Common shares (note 6) | **280,352** | 215,571 |
| Contributed surplus | **7,166** | 8,051 |
| Deficit | **(3,038)** | (3,285) |
| Accumulated other comprehensive loss | **(3,682)** | (4,917) |
| | **280,798** | 215,420 |
| | **655,168** | 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 March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Revenue | **149,309** | 156,557 |
| Cost of sales | **111,248** | 119,199 |
| Gross margin | **38,061** | 37,358 |
| General and administrative expenses | **21,292** | 16,187 |
| Operating profit | **16,769** | 21,171 |
| Finance costs | **3,315** | 915 |
| Income before taxes | **13,454** | 20,256 |
| Current income tax expense | **2,631** | 5,955 |
| Deferred income tax expense | **864** | 599 |
| Net income | **9,959** | 13,702 |
| Other comprehensive gain (loss): | | |
| Unrealized foreign exchange gain (loss) on translation of foreign operations | **1,235** | (2,137) |
| Comprehensive income | **11,194** | 11,565 |
| Net income per share (note 6) | | |
| Basic | **0.17** | 0.25 |
| Diluted | **0.16** | 0.24 |

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

**Canadian Energy Services & Technology Corp.**
Condensed Consolidated Statements of Changes in Equity (unaudited)
(stated in thousands of Canadian dollars)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | 2012 |
| COMMON SHARES | | |
| Balance, beginning of period | **215,571** | 200,412 |
| Issued pursuant to stock-based compensation (note 6) | **3,745** | 591 |
| Consideration for acquired businesses (note 3) | **61,036** | 1,863 |
| Balance, end of period | **280,352** | 202,866 |
| | | |
| CONTRIBUTED SURPLUS | | |
| Balance, beginning of period | **8,051** | 4,135 |
| Reclassified pursuant to stock-based compensation (note 6) | **(3,027)** | (138) |
| Stock-based compensation expense (note 7) | **2,142** | 1,091 |
| Balance, end of period | **7,166** | 5,088 |
| | | |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Balance, beginning of period | **(4,917)** | (2,809) |
| Unrealized foreign exchange gain (loss) on translation of foreign operations | **1,235** | (2,137) |
| Balance, end of period | **(3,682)** | (4,946) |
| | | |
| RETAINED EARNINGS (DEFICIT) | | |
| Balance, beginning of period | **(3,285)** | 2,322 |
| Net income | **9,959** | 13,702 |
| Dividends declared (note 8) | **(9,712)** | (7,741) |
| Balance, end of period | **(3,038)** | 8,283 |
| | **280,798** | 211,291 |

*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 March 31, | |
|---|---|---|
| | **2013** | 2012 |
| CASH PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES: | | |
| Net income for the period | **9,959** | 13,702 |
| Adjustments for: | **-** | |
| Depreciation and amortization | **4,845** | 2,581 |
| Stock-based compensation | **2,142** | 1,091 |
| Non-cash finance costs | **106** | (7) |
| Deferred income tax expense | **864** | 599 |
| Gain on disposal of assets | **(44)** | (138) |
| Change in non-cash working capital (note 10) | **(19,306)** | (8,296) |
| | **(1,434)** | 9,532 |
| FINANCING ACTIVITIES: | | |
| Repayment of long-term debt and finance leases | **(1,200)** | (811) |
| Issuance of long-term debt and lease proceeds | **-** | 1,470 |
| Issuance of shares, net of issuance costs | **718** | 453 |
| Proceeds from the JACAM Acquisition Bridge Facility | **160,000** | - |
| Increase in Amended Senior Facility | **34,048** | 3,354 |
| Shareholder dividends | **(9,393)** | (7,453) |
| | **184,173** | (2,987) |
| INVESTING ACTIVITIES: | | |
| Investment in property and equipment | **(8,833)** | (5,614) |
| Investment in intangible assets | **(36)** | (102) |
| Business combinations (note 3) | **(174,290)** | (1,344) |
| Proceeds on disposal of property and equipment | **420** | 515 |
| | **(182,739)** | (6,545) |
| CHANGE IN CASH | **-** | - |
| Cash, beginning of period | **-** | - |
| Cash, end of period | **-** | - |
| SUPPLEMENTARY CASH FLOW DISCLOSURE | | |
| Interest paid | **3,154** | 1,002 |
| Income taxes paid | **1,412** | 37 |

*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 March 31, 2013 and for the three months ended March 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 various 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"), 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 JACAM Acquisition (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 May 8, 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 United States.

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 incurs interest at a rate of 0.21% per annum and matures on May 1, 2013. The promissory note was repaid on April 18, 2013. In conjunction with this acquisition, the Company recorded $843 in transaction costs to general and administrative expenses.

As of the date these unaudited condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on May 8, 2013, the Company continues to review components of the purchase price allocation. The preliminary purchase price allocation is as follows:

| *Allocation of purchase price $000's* | |
|---|---|
| Current assets | 25,899 |
| Property and equipment | 42,964 |
| Intangible assets | 66,227 |
| Goodwill | 117,014 |
| **Total assets** | **252,104** |
| Current liabilities | (6,319) |
| Current portion of lease liabilities | (42) |
| Non-current portion of lease liabilities | (132) |
| **Total liabilities** | **(6,493)** |
| **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 March 31, 2013** | | | As at December 31, 2012 | | |
|---|---|---|---|---|---|---|
| *$000's* | **Cost** | **Accumulated Depreciation** | **Carrying Value** | Cost | Accumulated Depreciation | Carrying Value |
| Buildings | **30,225** | **(2,407)** | **27,818** | 17,119 | (1,996) | 15,123 |
| Trucks and trailers | **19,997** | **(6,153)** | **13,844** | 12,102 | (5,535) | 6,567 |
| Tanks | **14,416** | **(1,540)** | **12,876** | 13,928 | (1,321) | 12,607 |
| Aircraft | **12,306** | **(246)** | **12,060** | 819 | (131) | 688 |
| Vehicles | **15,428** | **(4,079)** | **11,349** | 10,546 | (3,580) | 6,966 |
| Field equipment | **13,546** | **(4,030)** | **9,516** | 8,175 | (3,619) | 4,556 |
| Processing equipment | **8,881** | **(675)** | **8,206** | 3,873 | (586) | 3,287 |
| Land | **2,925** | **-** | **2,925** | 2,106 | - | 2,106 |
| Computer equipment | **3,060** | **(1,083)** | **1,977** | 1,412 | (989) | 423 |
| Leasehold improvements | **2,759** | **(939)** | **1,820** | 2,537 | (805) | 1,732 |
| Furniture and fixtures | **1,481** | **(515)** | **966** | 1,071 | (459) | 612 |
| | **125,024** | **(21,667)** | **103,357** | 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. 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 pricing on the Amended Senior Facility is not impacted by the amounts outstanding on the JACAM Acquisition Bridge Facility. 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 3.50 to 1.00 as calculated on a rolling four-quarter basis while the JACAM Acquisition Bridge Facility remains outstanding. Following repayment of the JACAM Acquisition Bridge Facility, the 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 in Note 12 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 is excluded in the computation of current liabilities while it remains 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 March 31, 2013, based on eligible accounts receivable, inventory, and capital asset balances, the maximum available draw on the Amended Senior Facility was $124,453 (December 31, 2012 - $98,165). At March 31, 2013, the Company had a net draw of $101,485 on the Amended Senior Facility (December 31, 2012 – $67,410), net of capitalized transaction costs of $518 (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 is a bridge facility that was obtained by the Company in the amount of $160,000 for the sole purpose of financing the closing of the JACAM Acquisition. The JACAM Acquisition Bridge Facility has a one year term and is repayable in full by February 26, 2014. 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 incur interest at the Banker's Acceptance Rate of 3.00% which rise in quarterly increments up to 5.50%. The JACAM Acquisition Bridge Facility is also subject to quarterly duration fees on amounts outstanding on the JACAM Acquisition Bridge Facility rising from 25 basis points to 75 basis points. The JACAM Acquisition Bridge Facility was repaid in full on April 17, 2013. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the three months ended March 31, 2013 totaled $2,262.

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

| | As at | |
|---|---|---|
| *$000's* | **March 31, 2013** | December 31, 2012 |
| Amended Senior Facility | **101,485** | 67,410 |
| Vehicle financing loans | **2,414** | 2,362 |
| | **103,899** | 69,772 |
| Less current portion of long-term debt | **(1,100)** | (1,014) |
| Long-term debt | **102,799** | 68,758 |

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 7.74%, with a weighted average rate of approximately 5.90%, and have termination dates ranging from July 2013 to October 2016.

For the three months ended March 31, 2013, the Company recorded $1,450 (2012 – $975) in interest expense related to its long-term debt and lease balances.

Scheduled principal payments at March 31, 2013, are as follows:

| *$000's* | |
|---|---|
| 2013 - 9 months | **160,842** |
| 2014 | **1,004** |
| 2015 | **102,549** |
| 2016 | **22** |
| 2017 | - |
| Total | **264,417** |

## 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 shareholders' equity is presented below:

| | **Three Months Ended March 31, 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 | **355,438** | **718** | 860,353 | 3,609 |
| Contributed surplus related to stock-based compensation | **-** | **3,027** | - | 2,490 |
| Balance, end of period | **62,657,836** | **280,352** | 56,847,853 | 215,571 |

*c) Net income per share*

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's, except share and per share amounts* | **2013** | 2012 |
| Net income | **9,959** | 13,702 |
| Weighted average number of shares outstanding: | | |
| Basic shares outstanding | **58,885,788** | 55,255,804 |
| Effect of dilutive securities | **1,850,090** | 1,846,747 |
| Diluted shares outstanding | **60,735,878** | 57,102,551 |
| Net income per share - basic | **$0.17** | $0.25 |
| Net income per share - diluted | **$0.16** | $0.24 |

Excluded from the calculation of dilutive securities for the three months ended March 31, 2013, are 53,087 anti-dilutive Share Rights (2012 – 53,087).

## 7. Stock-Based Compensation

As at March 31, 2013, a total of 6,265,784 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan, of which 2,263,754 common shares remained available for grant. For the three months ended March 31, 2013, stock compensation expense of $2,142 (2012 – $1,091) 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) 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:

| | **Three Months Ended March 31, 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 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:

| | **Three Months Ended March 31, 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 | **15,000** | **11.40** | 815,087 | 10.78 |
| Exercised during the period | **(107,001)** | **5.85** | (678,601) | 5.14 |
| Forfeited during the period | **-** | **-** | (204,000) | 5.88 |
| Balance, end of period | **2,828,087** | **$7.74** | 2,920,088 | $7.65 |
| Exercisable Share Rights, end of period | **887,500** | **$6.45** | 962,500 | $6.47 |

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

| | **Three Months Ended March 31, 2013** |
|---|---|
| Risk-free interest rate | **1.14%** |
| Expected average life of Share Rights | **3.25 years** |
| Share Right term | **5.0 years** |
| Annual forfeiture rate | **7.22%** |
| Dividend yield | **0%** |
| Expected volatility | **37.81%** |
| Weighted average fair value per Share Right | **$3.19** |

The following table summarizes information about the outstanding grants under the Company's Share Rights Incentive Plan and Option Plan as at March 31, 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 |
| $3.11 - $4.23 | 25,000 | 2.77 | 0.67 | 25,000 | 2.77 |
| $4.24 - $5.25 | 363,000 | 4.83 | 2.03 | 72,000 | 4.75 |
| $5.26 - $5.91 | 36,000 | 5.66 | 2.29 | 18,000 | 5.66 |
| $5.92 - $8.25 | 1,347,000 | 6.17 | 2.51 | 715,500 | 6.17 |
| $8.26 - $10.74 | 984,000 | 10.63 | 4.23 | 63,000 | 10.33 |
| $10.75 - $12.90 | 98,087 | 11.90 | 3.19 | 19,000 | 11.57 |
| | 2,853,087 | $7.70 | 3.05 | 912,500 | $6.35 |

*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:

| | **Three Months Ended March 31, 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 | **612,542** | **11.80** | 525,006 | 11.86 |
| Reinvested during the period | **10,727** | **11.59** | 30,826 | 11.66 |
| Vested during the period | **(215,837)** | **13.01** | (124,352) | 10.87 |
| Balance, end of period | **1,148,942** | **$11.43** | 741,510 | $11.57 |

During the quarter, 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 on March 12, 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 three months ended March 31, 2013 is reduced by an estimated weighted average forfeiture rate of 7.00% per year at the date of grant.

## 8. Dividends

The Company declared dividends to holders of common shares for the three months ended March 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** |
| Total dividends declared during the period | | | $0.165 | **9,712** |

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

## 9. Commitments

The Company has commitments with payments due as follows:

| *$000's* | **2013 - 9 months** | **2014** | **2015** | **2016** | **2017** | **Total** |
|---|---|---|---|---|---|---|
| Office and facility rent | 1,937 | 1,979 | 1,809 | 1,481 | 891 | **8,097** |

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 March 31, | |
|---|---|---|
| *$000's* | **2013** | 2012 |
| Decrease (increase) in current assets | | |
| Accounts receivable | **(39,737)** | (7,331) |
| Inventory | **(2,352)** | (3,063) |
| Prepaid expenses | **(108)** | 919 |
| Increase (decrease) in current liabilities | | |
| Accounts payable and accrued liabilities | **22,897** | 1,487 |
| | **(19,300)** | (7,988) |
| *Relating to:* | | |
| Operating activities | **(19,306)** | (8,296) |
| Investing activities | **6** | 308 |

For the three months ended March 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 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, for completion and stimulation, production chemicals at the wellhead and pump-jack, and finally through specialty chemicals 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 March 31, | |
| *$000's* | **2013** | 2012 |
| Canada | **67,377** | 79,476 |
| United States | **81,932** | 77,081 |
| Total | **149,309** | 156,557 |

| | Long-Term Assets [1] | |
|---|---|---|
| *$000's* | **March 31, 2013** | December 31, 2012 |
| Canada | **114,934** | 90,405 |
| United States | **297,534** | 91,266 |
| Total | **412,468** | 181,671 |

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

### 12. Subsequent Events

On April 17, 2013, CES completed the private placement of $225,000 of 7.375% senior unsecured notes due on April 17, 2020 (the "Notes"). The Notes were issued at par value. The 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 Notes semi-annually on April 17 and October 17. The 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.

## Canadian Energy Services & Technology Corp.
Information

**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

**OFFICERS**
Thomas J. Simons
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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