Canadian Energy
SERVICES

# Condensed Consolidated Financial Statements

**For the Three and Nine Months Ended September 30, 2013**

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

| | As at | |
|---|---|---|
| | **September 30, 2013** | December 31, 2012 |
| ASSETS | | |
| Current assets | | |
| Accounts receivable | **174,536** | 107,112 |
| Financial derivative asset | **-** | 41 |
| Income taxes receivable | **7,491** | - |
| Inventory | **74,458** | 61,382 |
| Prepaid expenses | **6,681** | 4,164 |
| | **263,166** | 172,699 |
| Property and equipment (note 4) | **133,114** | 54,667 |
| Intangible assets | **84,501** | 15,921 |
| Deferred income tax asset | **1,796** | 272 |
| Goodwill | **263,298** | 111,083 |
| | **745,875** | 354,642 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **79,342** | 43,181 |
| Dividends payable (note 8) | **3,993** | 3,127 |
| Income taxes payable | **-** | 7,888 |
| Current portion of deferred acquisition consideration (note 3) | **10,537** | - |
| Current portion of long-term debt (note 5) | **1,121** | 1,014 |
| Current portion of finance lease obligations | **3,198** | 2,590 |
| | **98,191** | 57,800 |
| Deferred acquisition consideration (note 3) | **12,325** | - |
| Long-term debt (note 5) | **276,426** | 68,758 |
| Finance lease obligations | **3,406** | 2,817 |
| Deferred income tax liability | **16,410** | 9,847 |
| | **406,758** | 139,222 |
| Commitments (note 9) | | |
| Shareholders' equity | | |
| Common shares (note 6) | **337,301** | 215,571 |
| Contributed surplus | **11,294** | 8,051 |
| Deficit | **(10,456)** | (3,285) |
| Accumulated other comprehensive income (loss) | **978** | (4,917) |
| | **339,117** | 215,420 |
| | **745,875** | 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Revenue | **182,274** | 115,585 | **462,249** | 376,271 |
| Cost of sales | **132,024** | 87,700 | **342,523** | 287,505 |
| Gross margin | **50,250** | 27,885 | **119,726** | 88,766 |
| General and administrative expenses | **28,171** | 15,200 | **72,379** | 46,581 |
| Operating profit | **22,079** | 12,685 | **47,347** | 42,185 |
| Finance costs | **5,330** | 520 | **13,566** | 2,488 |
| Income before taxes | **16,749** | 12,165 | **33,781** | 39,697 |
| Current income tax expense | **828** | 3,563 | **2,663** | 12,671 |
| Deferred income tax expense | **3,321** | 650 | **6,700** | 2,004 |
| Net income | **12,600** | 7,952 | **24,418** | 25,022 |
| Other comprehensive gain: | | | | |
| Unrealized foreign exchange (loss) gain on translation of foreign operations | **(8,442)** | (4,095) | **5,895** | (3,860) |
| Comprehensive income | **4,158** | 3,857 | **30,313** | 21,162 |
| Net income per share (note 6) | | | | |
| Basic | **0.19** | 0.14 | **0.39** | 0.45 |
| Diluted | **0.19** | 0.14 | **0.38** | 0.44 |

*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)

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2013** | 2012 |
| COMMON SHARES | | |
| Balance, beginning of period | **215,571** | 200,412 |
| Issued pursuant to the Offering, net of share issue costs and taxes (note 6) | **33,472** | - |
| Consideration for business combinations (note 3) | **74,200** | 1,863 |
| Issued pursuant to stock-based compensation (note 6) | **9,431** | 3,736 |
| Issued pursuant to property and equipment acquisition (note 12) | **4,153** | - |
| Issued pursuant to stock dividend and other (note 6) | **474** | - |
| Balance, end of period | **337,301** | 206,011 |
| CONTRIBUTED SURPLUS | | |
| Balance, beginning of period | **8,051** | 4,135 |
| Reclassified pursuant to stock-based compensation (note 6) | **(5,050)** | (1,112) |
| Stock-based compensation expense (note 7) | **8,293** | 4,584 |
| Balance, end of period | **11,294** | 7,607 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Balance, beginning of period | **(4,917)** | (2,809) |
| Unrealized foreign exchange gain (loss) on translation of foreign operations | **5,895** | (3,860) |
| Balance, end of period | **978** | (6,669) |
| RETAINED EARNINGS (DEFICIT) | | |
| Balance, beginning of period | **(3,285)** | 2,322 |
| Net income | **24,418** | 25,022 |
| Dividends declared (note 8) | **(31,589)** | (24,447) |
| Balance, end of period | **(10,456)** | 2,897 |
| | **339,117** | 209,846 |

*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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES: | | | | |
| Net income for the period | **12,600** | 7,952 | **24,418** | 25,022 |
| Adjustments for: | | | | |
| Depreciation and amortization | **7,380** | 2,848 | **18,323** | 8,299 |
| Stock-based compensation | **3,601** | 1,778 | **8,293** | 4,584 |
| Non-cash expenses (income) | **(52)** | (150) | **484** | (153) |
| Deferred income tax expense | **3,321** | 650 | **6,700** | 2,004 |
| Gain on disposal of assets | **(8)** | (5) | **(130)** | (125) |
| Change in non-cash working capital (note 10) | **(21,392)** | 3,716 | **(34,525)** | 9,974 |
| | **5,450** | 16,789 | **23,563** | 49,605 |
| FINANCING ACTIVITIES: | | | | |
| Repayment of promissory note payable (note 3) | **-** | - | **(10,255)** | - |
| Repayment of long-term debt and finance leases | **(1,190)** | (1,075) | **(3,574)** | (2,957) |
| Net proceeds from Senior Notes issuance (note 5) | **-** | - | **219,652** | - |
| Increase (decrease) in Second Amended Senior Facility | **2,522** | (3,838) | **(13,911)** | (10,670) |
| Shareholder dividends | **(10,501)** | (8,358) | **(30,257)** | (24,135) |
| Issuance of shares, net of issuance costs | **34,115** | 715 | **37,320** | 2,624 |
| Issuance of long-term debt and lease proceeds | **-** | - | **-** | 1,470 |
| | **24,946** | (12,556) | **198,975** | (33,668) |
| INVESTING ACTIVITIES: | | | | |
| Investment in property and equipment | **(10,536)** | (4,283) | **(27,996)** | (15,218) |
| Investment in intangible assets | **(385)** | (143) | **(1,705)** | (293) |
| Business combinations (note 3) | **(20,377)** | - | **(194,667)** | (1,344) |
| Proceeds on disposal of property and equipment | **902** | 193 | **1,830** | 918 |
| | **(30,396)** | (4,233) | **(222,538)** | (15,937) |
| CHANGE IN CASH | **-** | - | **-** | - |
| Cash, beginning of period | **-** | - | **-** | - |
| Cash, end of period | **-** | - | **-** | - |
| SUPPLEMENTARY CASH FLOW DISCLOSURE | | | | |
| Interest paid | **703** | 1,179 | **5,108** | 3,215 |
| Income taxes paid | **4,467** | 1,209 | **18,115** | 4,385 |

*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 September 30, 2013 and for the three and nine months ended September 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"), AES Drilling Fluids Permian ("AES Permian", previously referred to as 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 acquisitions of AES Permian and JACAM made in 2013 (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 November 7, 2013.

## 3. 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 $863 in transaction costs to general and administrative expenses.

The preliminary purchase price allocation is as follows:

| ***Allocation of purchase price $000's*** | |
|---|---|
| Current assets | 25,899 |
| Property and equipment | 42,746 |
| Intangible assets | 66,227 |
| Goodwill | 117,040 |
| **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** |

*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 approximately $58,005 (US$55,175) consisting of $13,164 (US$12,667) in share consideration satisfied through the issuance of 838,076 common shares of the Company, and $44,841 (US$42,508) payable in cash, of which $19,550 (US$18,533) was paid on the transaction date. 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 $6,303 (US$5,975) 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 $118 in transaction costs to general and administrative expenses.

The preliminary purchase price allocation is as follows:

| ***Allocation of purchase price $000's*** | |
|---|---|
| Current assets | 8,074 |
| Property and equipment | 12,584 |
| Intangible assets | 6,066 |
| Goodwill | 33,353 |
| **Total assets** | **60,077** |
| | |
| Current liabilities | (2,072) |
| **Net assets acquired** | **58,005** |

| ***Consideration given $000's*** | |
|---|---|
| Cash | 19,550 |
| Share consideration | 13,164 |
| Consideration payable post-close | 6,303 |
| Contingent consideration | 18,988 |
| **Total consideration** | **58,005** |

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.

## 4. Property and Equipment

Property and equipment are comprised of the following balances:

| | **As at September 30, 2013** | | | As at December 31, 2012 | | |
|---|---|---|---|---|---|---|
| *$000's* | **Cost** | **Accumulated Depreciation** | **Carrying Value** | Cost | Accumulated Depreciation | Carrying Value |
| Buildings | **38,928** | **(2,932)** | **35,996** | 17,119 | (1,996) | 15,123 |
| Tanks | **21,048** | **(2,067)** | **18,981** | 13,928 | (1,321) | 12,607 |
| Trucks and trailers | **25,712** | **(8,192)** | **17,520** | 12,102 | (5,535) | 6,567 |
| Aircraft | **18,090** | **(877)** | **17,213** | 819 | (131) | 688 |
| Field equipment | **19,658** | **(5,345)** | **14,313** | 8,175 | (3,619) | 4,556 |
| Vehicles | **19,494** | **(5,571)** | **13,923** | 10,546 | (3,580) | 6,966 |
| Processing equipment | **8,032** | **(1,290)** | **6,742** | 3,873 | (586) | 3,287 |
| Land | **3,357** | **-** | **3,357** | 2,106 | - | 2,106 |
| Computer equipment | **3,802** | **(1,437)** | **2,365** | 1,412 | (989) | 423 |
| Leasehold improvements | **2,964** | **(1,191)** | **1,772** | 2,537 | (805) | 1,732 |
| Furniture and fixtures | **1,551** | **(619)** | **932** | 1,071 | (459) | 612 |
| | **162,636** | **(29,521)** | **133,114** | 73,688 | (19,021) | 54,667 |

## 5. Long-Term Debt

On February 26, 2013, the Company completed a second amendment to its existing Senior Facility ("Second Amended Senior Facility") pursuant to the JACAM Acquisition. The Second 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 Second Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

*Second Amended Senior Facility*
The Second 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 Second 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 Second 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 Second 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 Second 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 Second Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

In conjunction with the Second Amended Senior Facility, the following are 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 at September 30, 2013, the Company was in compliance with the terms and covenants of its lending agreements. As of September 30, 2013, based on eligible accounts receivable, inventory, and capital asset balances, the maximum available draw on the Second Amended Senior Facility was $150,000 (December 31, 2012 - $98,165). At September 30, 2013, the Company had a net draw of $54,057 on the Second Amended Senior Facility (December 31, 2012 – $67,410), net of capitalized transaction costs of $387 (December 31, 2012 – $583). Transaction costs attributable to the Second Amended Senior Facility are recorded as part of the Second 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. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the three and nine months ended September 30, 2013 totaled $nil and $2,589, respectively.

*Third Amended Senior Facility*
On October 2, 2013, the Company completed an amendment to its existing Second Amended Senior Facility (the "Third Amended Senior Facility") which allows the Company to borrow up to $150,000. The Third Amended 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 Third Amended Senior Facility by $30,000 to a maximum borrowing of $180,000. Amounts drawn on the Third Amended 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 Third Amended 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 covenants on the Third Amended Senior Facility remain consistent with the covenants on the previous Second Amended Senior Facility as noted above with the exception of the elimination of the covenant requiring the quarterly ratio of current assets to current liabilities to not be less than 1.25 to 1.00. The obligations and indebtedness under the Third Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

*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 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. For the three and nine months ended September 30, 2013, the Company recorded $4,182 and $7,952, respectively, in interest expense related to the Senior Notes.

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

| | As at | |
|---|---|---|
| *$000's* | **September 30, 2013** | December 31, 2012 |
| Second Amended Senior Facility | **54,444** | 67,993 |
| Senior Notes | **225,000** | - |
| Vehicle financing loans | **2,209** | 2,362 |
| | **281,653** | 70,355 |
| Less net unamortized debt issue costs | **(4,106)** | (583) |
| Less current portion of long-term debt | **(1,121)** | (1,014) |
| Long-term debt | **276,426** | 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 6.08%, and have termination dates ranging from January 2014 to October 2016.

For the three and nine months ended September 30, 2013, the Company recorded $5,078 and $10,477, respectively, (2013 – $729 and $2,699, 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 September 30, 2013, are as follows:

| *$000's* | |
|---|---|
| 2013 - 3 months | **282** |
| 2014 | **1,109** |
| 2015 | **55,130** |
| 2016 | **132** |
| 2017 | **-** |
| Total | **56,653** |

## 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:

| | **Nine Months Ended September 30, 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 period | **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 (note 3) | **6,292,621** | **74,200** | 849,065 | 9,060 |
| Issued pursuant to stock-based compensation | **1,028,230** | **4,381** | 860,353 | 3,609 |
| Contributed surplus related to stock-based compensation | **-** | **5,050** | - | 2,490 |
| Issued pursuant to property and equipment acquisition (note 12) | **238,108** | **4,153** | - | - |
| Issued pursuant to stock dividend and other | **29,697** | **474** | - | - |
| Balance, end of period | **66,546,509** | **337,301** | 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 offering expenses and underwriter's commission of approximately $2,088, were $32,938.

***Stock dividend and other***
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 three and nine months ended September 30, 2013 and 2012, the weighted average number of shares used in the calculation is shown in the table below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's, except share and per share amounts* | **2013** | 2012 | **2013** | 2012 |
| Net income | **12,600** | 7,952 | **24,418** | 25,022 |
| Weighted average number of shares outstanding: | | | | |
| Basic shares outstanding | **65,212,693** | 55,749,999 | **62,343,079** | 55,525,233 |
| Effect of dilutive securities | **2,770,188** | 1,606,169 | **2,452,067** | 1,736,631 |
| Diluted shares outstanding | **67,982,881** | 57,356,168 | **64,795,146** | 57,261,864 |
| Net income per share - basic | **$0.19** | $0.14 | **$0.39** | $0.45 |
| Net income per share - diluted | **$0.19** | $0.14 | **$0.38** | $0.44 |

Excluded from the calculation of dilutive securities for both the three and nine months ended September 30, 2013, are 39,000 anti-dilutive Share Rights (2012 – 971,087 and 83,087, respectively).

**7. Stock-Based Compensation**
As at September 30, 2013, a total of 6,654,651 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan, of which 2,810,263 common shares remained available for grant. For the three and nine months ended September 30, 2013, stock compensation expense of $3,601 and $8,293, respectively (2012 – $1,778 and $4,584, 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:

| | **Nine Months Ended September 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 | **(57,600)** | **2.79** | (57,400) | 2.07 |
| Balance, end of period | **-** | **-** | 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:

| | **Nine Months Ended September 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 | **84,000** | **15.12** | 815,087 | 10.78 |
| Exercised during the period | **(672,601)** | **6.28** | (678,601) | 5.14 |
| Forfeited during the period | **(84,739)** | **9.80** | (204,000) | 5.88 |
| Balance, end of period | **2,246,748** | **$8.17** | 2,920,088 | $7.65 |
| Exercisable Share Rights, end of period | **919,900** | **$7.16** | 962,500 | $6.47 |

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

| | **Nine Months Ended September 30, 2013** |
|---|---|
| Risk-free interest rate | **1.29%** |
| Expected average life of Share Rights | **3.25 years** |
| Share Right term | **5.0 years** |
| Annual forfeiture rate | **7.30%** |
| Dividend yield | **3.65%** |
| Expected volatility | **35.83%** |
| Weighted average fair value per Share Right | **$3.00** |

The following table summarizes information about the outstanding grants under the Company's SRIP and Option Plan as at September 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 |
| $4.24 - $5.25 | 117,000 | 4.82 | 1.52 | 117,000 | 4.82 |
| $5.26 - $5.91 | 21,000 | 5.66 | 1.79 | 21,000 | 5.66 |
| $5.92 - $8.25 | 1,158,400 | 6.17 | 2.01 | 541,900 | 6.17 |
| $8.26 - $10.74 | 824,000 | 10.64 | 3.80 | 221,000 | 10.60 |
| $10.75 - $18.32 | 126,348 | 13.98 | 4.04 | 19,000 | 11.57 |
| | 2,246,748 | $8.17 | 2.75 | 919,900 | $7.16 |

*c) 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 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:

| | Nine Months Ended September 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 | **1,125,287** | **14.41** | 525,006 | 11.86 |
| Reinvested during the period | **38,243** | **11.73** | 30,826 | 11.66 |
| Vested during the period | **(298,029)** | **12.38** | (124,352) | 10.87 |
| Forfeited during the period | **(9,371)** | **10.70** | - | - |
| Balance, end of period | **1,597,640** | **$13.44** | 741,510 | $11.57 |

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 nine months ended September 30, 2013 is reduced by an estimated weighted average forfeiture rate of 4.35% per year at the date of grant.

## 8. Dividends

The Company declared dividends to holders of common shares for the nine months ended September 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** |
| 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** |
| Total dividends declared during the period | | | $0.505 | **31,589** |

Subsequent to September 30, 2013, the Company declared dividends to holders of common shares in the amount of $0.06 per common share payable on November 15, 2013, for shareholders of record on October 31, 2013.

## 9. Commitments

The Company has commitments with payments due as follows:

| *$000's* | **2013 - 3 months** | **2014** | **2015** | **2016** | **2017** | **Total** |
|---|---|---|---|---|---|---|
| Office and facility rent | 850 | 2,639 | 2,468 | 1,933 | 1,059 | **8,949** |

*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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2013** | 2012 | **2013** | 2012 |
| Decrease (increase) in current assets | | | | |
| Accounts receivable | **(49,184)** | (4,946) | **(52,768)** | 38,071 |
| Inventory | **2,560** | 9,450 | **(646)** | (5,177) |
| Prepaid expenses | **(3,247)** | (630) | **(1,924)** | 1,457 |
| Increase (decrease) in current liabilities | | | | |
| Accounts payable and accrued liabilities | **28,268** | (1,216) | **20,876** | (25,832) |
| | **(21,603)** | 2,658 | **(34,462)** | 8,519 |
| *Relating to:* | | | | |
| Operating activities | **(21,392)** | 3,716 | **(34,525)** | 9,974 |
| Investing activities | **(211)** | (1,058) | **63** | (1,456) |

For the three and nine months ended September 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 September 30, | | Nine Months Ended September 30, | |
| *$000's* | **2013** | 2012 | **2013** | 2012 |
| Canada | **64,627** | 49,407 | **163,702** | 160,337 |
| United States | **117,647** | 66,178 | **298,547** | 215,934 |
| Total | **182,274** | 115,585 | **462,249** | 376,271 |

| | Long-Term Assets [(1)] | |
|---|---|---|
| *$000's* | **September 30, 2013** | December 31, 2012 |
| Canada | **115,564** | 90,405 |
| United States | **365,349** | 91,266 |
| Total | **480,913** | 181,671 |

(1) Includes: Property and equipment, goodwill, and intangible assets

**12. Related Parties**
During the three months ended September 30, 2013, the Company purchased some of the 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 three and nine months ended

September 30, 2013, the Company made rental and principal payments in the amount of $609 and $1,337, respectively (2012 - $242 and $469, respectively). As at September 30, 2013, the Company had an outstanding liability of $1,298 (December 31, 2012 - $nil) for the remaining payments.

For the three and nine months ended September 30, 2013, lease payments on equipment and office leases in the amount of $44 and $104, respectively, (2012 - $11 and $65, respectively) were made for rental agreements CES has with companies controlled by a director and insiders of the Company.

During the three months ended September 30, 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.

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.

## Canadian Energy Services & Technology Corp.
Information

**STOCK EXCHANGE LISTING**
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

**BOARD OF DIRECTORS**
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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

Burton J. Ahrens[1]

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

**OFFICERS**
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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**
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Chartered Accountants, Calgary, AB

**BANKERS**
HSBC Bank Canada, Calgary, AB

**SOLICITORS**
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