Canadian Energy
SERVICES

Audited Annual Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

MANAGEMENT'S REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with generally accepted accounting principles and for the consistency therewith of all other financial and operating data presented in this annual report.

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

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

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 9, 2010

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 9, 2010

AUDITORS' REPORT

To the Shareholders of Canadian Energy Services & Technology Corp. (formerly Canadian Energy Services L.P.)

We have audited the consolidated balance sheets of Canadian Energy Services & Technology Corp. (formerly Canadian Energy Services L.P.) (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive earnings and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"
Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 9, 2010

Consolidated Balance Sheets (audited)
(stated in thousands of dollars except per unit amounts)

	As at	
	December 31, 2009	December 31, 2008
ASSETS		
Current assets		
Accounts receivable (note 18)	**35,336**	47,286
Inventory (note 5)	**10,001**	10,903
Prepaid expenses	**389**	441
	45,726	58,630
Property and equipment (note 6)	**14,564**	12,519
Intangible assets (note 7)	**7,169**	4,199
Future income tax asset (note 12)	**1,949**	-
Goodwill (notes 4 and 8)	**61,291**	49,913
	130,699	125,261
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 9)	**8,762**	12,702
Accounts payable and accrued liabilities	**21,212**	25,578
Financial derivative liability (note 18)	**11**	-
Earn-out payable (note 17)	**207**	2,000
Deferred acquisition consideration (notes 4 and 17)	**2,098**	-
Distributions payable	**983**	1,225
Current portion of long-term debt (note 10)	**1,106**	1,300
	34,379	42,805
Long-term debt (note 10)	**2,557**	3,474
Future income tax liability (note 12)	**1,229**	2,004
	38,165	48,283
Commitments (note 17)		
Unitholders' equity		
Class A Units (note 13)	**117,448**	84,352
Subordinated Class B Units (note 13)	**-**	21,514
Subordinate convertible debenture (note 11)	**6,627**	-
Contributed surplus (note 15)	**2,122**	1,531
Deficit	**(33,663)**	(30,419)
	92,534	76,978
	130,699	125,261

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer and Director

"D. Michael Stewart"
D. Michael Stewart
Director & Chairman, Audit Committee

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

Consolidated Statements of Operations, Comprehensive Earnings and Deficit (audited)
(stated in thousands of dollars except per unit amounts)

	Year Ended December 31,	
	2009	2008
Revenue	**89,454**	125,069
Cost of sales (note 5)	**62,742**	88,373
Gross margin	**26,712**	36,696
Expenses		
Selling, general, and administrative expenses	**16,754**	16,112
Amortization	**3,526**	2,601
Unit-based compensation (note 14)	**827**	2,097
Interest expense	**478**	586
Foreign exchange gain	**(13)**	(48)
Financial derivative loss (note 18)	**55**	-
Loss on disposal of assets	**110**	37
	21,737	21,385
Net earnings before taxes	**4,975**	15,311
Future income tax expense (recovery) (note 12)	**(2,540)**	125
Net earnings and comprehensive earnings	**7,515**	15,186
Deficit, beginning of year	**(30,419)**	(35,699)
Unitholders' distributions declared (note 16)	**(10,759)**	(9,906)
Deficit, end of year	**(33,663)**	(30,419)
Net earnings per unit (note 13)		
Basic	**0.67**	1.46
Diluted	**0.66**	1.46

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

Consolidated Statements of Cash Flow (audited)
(stated in thousands of dollars)

	Year Ended December 31, **2009**	2008
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net earnings for the period	**7,515**	15,186
Items not involving cash:		
Amortization	**3,526**	2,601
Unit-based compensation	**827**	2,097
Future income tax expense (recovery)	**(2,540)**	125
Loss on disposal of assets	**110**	37
Unrealized foreign exchange (gain) loss	**13**	(283)
Unrealized financial derivative loss (note 18)	**11**	-
Change in non-cash operating working capital (note 20)	**9,883**	(17,276)
	19,345	2,487
FINANCING ACTIVITIES:		
Repayment of long-term debt	**(1,562)**	(1,962)
Issuance of long-term debt	**-**	2,750
Issuance of Class A Units, net of issuance costs	**9,719**	11,932
Increase (decrease) in bank indebtedness	**(3,940)**	8,154
Distributions to unitholders	**(11,002)**	(9,765)
	(6,785)	11,109
INVESTING ACTIVITIES:		
Investment in property and equipment	**(4,467)**	(5,957)
Investment in intangible assets	**(46)**	(77)
Acquisition of Clear Environmental Solutions	**-**	(7,529)
Acquisition of Champion Drilling Fluids (note 4)	**(8,943)**	-
Proceeds on disposal of fixed assets	**473**	123
Change in non-cash investing working capital (note 20)	**478**	(191)
	(12,505)	(13,631)
Effect of exchange rate on cash balances	**(55)**	35
CHANGE IN CASH	**-**	-
Cash, beginning of year	**-**	-
Cash, end of year	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**495**	271
Taxes paid	**-**	-

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

(Unless otherwise stated, all amounts in thousands of Canadian dollars, except unit and per unit amounts)

1. The Partnership

Canadian Energy Services L.P. (the "Partnership" or "CES") is a limited partnership formed on January 13, 2006, pursuant to the *Limited Partnerships Act* (Ontario). Effective January 1, 2010, the Partnership and Canadian Energy Services Inc. (the "General Partner") completed a Plan of Arrangement ("Arrangement") with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly traded Canadian limited partnership to a publicly traded corporation (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CESTC") with no changes to the underlying business operations of CES. Refer to note 24 for additional information.

The Partnership designs and implements drilling fluid systems for the oil and natural gas industry, in particular relating to drilling medium to deep vertical and directional wells and horizontal wells in the Western Canadian Sedimentary Basin and the United States through its indirect wholly-owned subsidiary, AES Drilling Fluids, LLC. The Western Canadian oil and natural gas drilling season is affected by weather. The industry is generally more active during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather in the spring and summer can hamper the movement of drilling rigs which has a direct impact upon generating revenue. Conversely, a longer colder winter as well as a dry spring and summer can strengthen drilling activity.

2. Basis of Presentation and Significant Accounting Policies

The consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment and intangible assets, impairment of goodwill and intangibles, future income taxes and unit-based compensation. The impairment calculations for goodwill, intangibles, and other fixed assets are based upon estimated future cash flows and as such are dependent upon drilling activity within the oil and natural gas industry. Actual drilling activity cannot be predicted with certainty and as such actual results could differ from these estimates.

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

Effective November 1, 2009, the Partnership changed its inventory accounting policy from a first-in, first out basis to an average cost basis. As of the date of transition, management of the Partnership reviewed the estimated impact to the financial statements of retrospective application of this change in accounting policy and determined that the impact to the financial statements for each of 2009 and 2008 was not material. As such, the current year and prior fiscal years have not be restated and the change in accounting policy has been applied prospectively from the date of transition. At December 31, 2009, inventory is stated at the lower of cost, as determined on an average costs basis, and net realizable value.

c) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized using the straight-line method over their estimated useful lives at the following rates:

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

The Partnership regularly reviews its property and equipment to assess for impairment.

d) Intangible assets

Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized over their estimated useful lives when the realization of economic benefits begin. Intangible assets are tested for recoverability an least annually and whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The impairment test is based on estimated future cash flows associated with the intangible asset.

e) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is necessary when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it were the purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

f) Revenue recognition

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. As applicable, for sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service and trucking charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue is only recognized when collection is reasonably assured.

g) Unit-based compensation

The Partnership uses the fair value method to account for unit options granted to employees, officers and directors of the General Partner and certain service providers. Under the fair value method, the fair value of the unit options is estimated at the grant date using a Black-Scholes option pricing model, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus. Any consideration received upon the exercise of the unit-based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in unitholders' capital. The Partnership has not incorporated an estimated forfeiture rate for unit options that will not vest and accounts for forfeitures as they occur.

h) Income taxes

For the years ended December 31, 2009 and 2008, the income earned directly by the Partnership is taxed in the hands of the partner. As a result, provisions for current income tax have not made by the Partnership, except as noted below.

Effective January 1, 2010, as a result of the Arrangement with Nevaro, the Partnership converted from a limited partnership structure to a corporate structure. As a result, CES will be subject to federal and provincial income taxes in Canada to the extent they are not sheltered by existing tax pools. As such, effective January 1, 2010, the income of CES will be subject to tax and accordingly future income taxes have been recorded relating to temporary differences expected to reverse after this date.

CES and its subsidiaries follow the liability method of recording future income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply to taxable income in the period in which those temporary differences reverse. Future income tax inflows and outflows are subject to estimation in terms of both timing and amount of future taxable earnings. Should these estimates change, the carrying value of income tax assets or liabilities may change. The effect of a change in tax rates on future tax assets and liabilities is recognized in income in the period that the legislation is enacted or substantively enacted.

These consolidated financial statements include the assets, liabilities, and operations of the Partnership and its subsidiaries and do not include the assets and liabilities, including income tax, of the partners.

i) Foreign currency translation
Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date with the corresponding gains and losses included in net earnings.

The accounts of the Partnership's integrated foreign subsidiary are translated into Canadian dollars using average exchange rates for the month of the respective transaction for revenue and expense except for amortization expense. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated using historical exchange rates. Foreign exchange gains or losses resulting from these translation adjustments are included in net earnings.

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

k) Financial instruments
The Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities; and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

The Partnership has classified its financial instruments as follows: cash and financial derivatives – held for trading; accounts receivable – loans and receivables; and bank indebtedness, accounts payable and accrued liabilities, earn-out payable, deferred acquisition consideration, distributions payable and long-term debt – other financial liabilities.

Transaction costs relating to financial instruments are expensed as incurred and included in net earnings.

l) Earnings per unit
Basic earnings per unit are based on the income attributable to unitholders for the period divided by the weighted average number of Class A Units and Subordinated Class B Units outstanding during the period. The diluted earnings per unit are based on the weighted average number of Class A Units and Subordinated Class B Units outstanding during the period plus the effects of dilutive unit equivalents. This method requires that the dilutive effect of outstanding unit options, bonus units, and distribution rights issued should be calculated using the treasury stock method. The treasury stock method assumes that all in the money unit equivalents have been exercised and that the funds obtained thereby were used to purchase units of the Partnership at the average trading price of the Class A Units during the period.

m) Subordinated convertible debentures
The Partnership's subordinated convertible debenture (the "Debenture") has been classified as an equity instrument. The Debenture was not bifurcated into debt and equity components and no portion of the Debenture is classified as debt instrument. The terms and provisions of the Debenture are such that the Debenture automatically converted under a forced conversion

provision effective January 1, 2010 to a fixed number Class A Units of the Partnership following the Arrangement with Nevaro as outlined in note 24.

n) Accounting changes

Goodwill and Intangible Assets

In January 2009, the Partnership adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. There has been no impact to the Partnership as a result of the initial adoption of these standards.

EIC-173

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract applies to interim and annual financial periods ending on or after January 2009. The adoption of EIC-173 did not result in a material impact on the Partnership's consolidated financial statements.

Financial Instruments

In June 2009, the Accounting Standards Board ("AcSB") issued amendments to Section 3862, Financial Instruments - Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). The Partnership has included these additional disclosures in its annual consolidated financial statements for the year ended December 31, 2009.

Business Combinations

In January 2009, the AcSB issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This standard applies prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted. The Partnership is currently assessing the impact of this standard.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning after January 2011 with earlier application permitted. The Partnership is currently assessing the impact of these standards.

4. Business Acquisition

On November 30, 2009, the Partnership completed its acquisition of selected business assets of Champion Drilling Fluids Inc. ("Champion"), a privately held Oklahoma based drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the U.S. midcontinent region. The aggregate purchase price, including transaction costs, was $18,001 (US$17,086) consisting of $8,212 (US$7,824) in net cash consideration after a working capital adjustment, $2,431 (US$2,300) in additional deferred acquisition consideration, and a $6,627 (US$6,271) Debenture. US$2,000 of the additional deferred acquisition consideration is payable in cash upon the earlier of the second anniversary of the acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the United States. The acquisition was accounted for using the purchase method with the purchase price allocation as follows:

Allocation of purchase price $000's	
Current assets	2,182
Property and equipment	423
Intangible assets (note 7)	4,018
Goodwill (note 8)	11,378
Net assets acquired	**18,001**

Consideration given $000's	
Cash	8,867
Working capital adjustment	(655)
Net cash consideration	8,212
Subordinate convertible debenture (note 11)	6,627
Deferred consideration (note 17)	2,431
Transaction costs	731
Total consideration	**18,001**

On June 12, 2008, the Partnership completed the acquisition of the business and assets of Clear Environmental Solutions Inc. ("Clear") for an aggregate purchase price of $13,472, including $2,000 of contingent consideration. The $2,000 of contingent consideration was determined by subtracting $2,400 from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the twelve month period ending June 30, 2009 and multiplying the positive result, if any, by a four times multiple. On August 28, 2009, $1,793 of this contingent consideration was satisfied through the issuance of 223,054 Class A Units with the remaining $207 balance of the earn-out paid out in cash subsequent to year-end. Refer to note 17 for additional information. The purchase price allocation for Clear was as follows:

Allocation of purchase price $000's	
Current assets	1,610
Current liabilities	(318)
Property and equipment	133
Intangible assets	4,100
Goodwill	7,947
Net assets acquired	**13,472**

Consideration given $000's	
Cash	7,400
Working capital adjustment	43
Total cash consideration	7,443
Class A Units	3,900
Contingent consideration	2,000
Transaction costs	129
Total consideration	**13,472**

5. Inventory

As noted in note 3(b), effective November 1, 2009, the Partnership changed its inventory accounting policy from a first-in, first out basis to an average cost basis. As of the date of transition, management of the Partnership reviewed the estimated impact to the financial statements of retrospective application of this change in accounting policy and determined that the impact was not material during the current and prior periods presented. As such, the current and prior fiscal periods have not been restated to reflect the change in accounting policy.

The cost of inventory expensed in cost of sales for the year ended December 31, 2009 was $40,692 (2008 - $61,678).

6. Property and Equipment

Property and equipment are comprised of the following balances:

	As at December 31, 2009			As at December 31, 2008		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Trucks	**5,680**	**(1,242)**	**4,438**	3,842	(511)	3,331
Vehicles	**3,725**	**(1,342)**	**2,383**	4,052	(1,166)	2,886
Buildings	**4,117**	**(355)**	**3,762**	2,650	(186)	2,464
Field equipment	**2,182**	**(865)**	**1,317**	1,983	(456)	1,527
Land	**989**	**-**	**989**	981	-	981
Computer equipment and software	**1,177**	**(580)**	**597**	898	(350)	548
Tanks	**902**	**(99)**	**803**	505	(44)	461
Furniture and fixtures	**301**	**(133)**	**168**	364	(89)	275
Leasehold improvements	**136**	**(29)**	**107**	54	(8)	46
	19,209	**(4,645)**	**14,564**	15,329	(2,810)	12,519

7. Intangible Assets

Intangible assets are comprised of the following balances:

	As at December 31, 2009			As at December 31, 2008		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Customer relationships	**8,118**	**(1,130)**	**6,988**	4,100	(408)	3,692
Technology	**-**	**-**	**-**	600	(250)	350
Patents	**218**	**(37)**	**181**	172	(15)	157
	8,336	**(1,167)**	**7,169**	4,872	(673)	4,199

As part of the acquisition of Champion (note 4), the Partnership recognized $4,018 of intangible assets relating to customer relationships acquired. The value will be amortized over its expected life of seven years.

As outlined further in note 13, in conjunction with the repurchase of 50,000 Class A Units, the Partnership returned the technology used in designing certain drilling fluid systems ("Drilling Fluid Technology") which had been acquired in June of 2008.

8. Goodwill

Details of the change in the Partnership's goodwill balance are as follows:

$000's	
Balance, December 31, 2008	**49,913**
Champion acquisition (note 4)	**11,378**
Balance, December 31, 2009	**61,291**

At December 31, 2009, the Partnership completed its annual goodwill impairment test. Management estimated the fair value of the Partnership's drilling fluids and environmental businesses using a number of industry accepted valuation methodologies including discounted future cash flows, comparable industry valuation multiples, recent trading activity, and capital market pricing of the Partnership's Class A Units. Management concluded that there was no impairment to goodwill.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is necessary when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it were the purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

9. Bank Indebtedness

The Partnership has a revolving demand loan with a commercial bank permitting it to borrow up to $30,000, subject to the value of certain accounts receivable and inventory. As of December 31, 2009, based on eligible accounts receivable and inventory balances, the maximum available draw on the facility was $20,901 (December 31, 2008 - $20,000). At December 31, 2009, the Partnership had a total net draw of $8,762 (December 31, 2008 - $12,702) on the facility. Amounts drawn on the facility incur interest at the bank's prime rate plus 1.25%.

CES' debt facilities, including the operating line, are secured by general security agreements creating a first priority security interest in all present and after-acquired personal property of Canadian Energy Services & Technology Corp., Canadian Energy Services Inc., the general partner of the Partnership (the "General Partner"), the Partnership, and each of its subsidiaries, an unlimited corporate guarantee of the indebtedness, obligations and liabilities of the Partnership to the bank given by each of the General Partner, Canadian Energy Services & Technology Corp. and each of the Partnership's subsidiaries, together with a demand collateral mortgage on the Partnership's Edson, Alberta property.

10. Long-Term Debt

The Partnership has long-term debt as follows:

$000's	**December 31, 2009**	December 31, 2008
Vehicle financing loans	**1,464**	2,258
Committed loan facilities	**2,199**	2,516
	3,663	4,774
Less current portion of long-term debt	**(1,106)**	(1,300)
Long-term debt	**2,557**	3,474

The Partnership has a non-revolving committed loan with a commercial bank for $1,614. At December 31, 2009, a total of $1,536 remained outstanding (December 31, 2008 - $1,653). The loan is repayable in fixed monthly principal payments of $10 plus interest at the bank's prime rate plus 1.40%. The loan has an initial term of five years, with the bank reserving the right to extend the term of the loan by two additional five year periods at its discretion.

The Partnership has a second non-revolving committed loan for $798. At December 31, 2009, a total of $663 remained outstanding (December 31, 2008 - $863). The loan is repayable over five years in fixed monthly principal payments of $17 plus interest at the bank's prime rate of interest plus 1.40%.

During 2009, the Partnership established a non-revolving demand loan facility for $2,000. At December 31, 2009, a total of $Nil had been drawn on the facility. Any future draws made on the facility are repayable in forty-eight equal monthly instalments plus interest at the bank's prime rate of interest plus 1.40%.

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 13%, with a weighted average rate of 6.40%, and have termination dates ranging from October 2009 to December 2012.

Scheduled principal payments at December 31, 2009 are as follows:

$000's	
2010	**1,106**
2011	**837**
2012	**470**
2013	**1,250**
2014	**-**
Total	**3,663**

11. Subordinate Convertible Debenture

In conjunction with the acquisition of Champion Drilling Fluids Inc. (note 4), a $6,627 subordinate convertible debenture was issued by the Partnership. The Debenture pays interest at 12% per annum and provides for a forced conversion of the Debentures into 791,776 common shares of CES, at a fixed conversion price of $8.37 per common share, upon conversion from a limited partnership to a corporation. The conversion from a limited partnership to a corporation became effective January 1, 2010 (see note 24) and the Debenture was converted to common shares of CES on January 4, 2010. The common shares issued 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, on each of the first, second, and third anniversaries after closing of the acquisition.

12. Income Taxes

For the years ended December 31, 2009 and 2008, the income earned directly by the Partnership is taxed in the hands of the partners. Effective January 1, 2010, as a result of the Arrangement with Nevaro (see note 24), the Partnership converted from a limited partnership structure to a corporate structure. As a result, CES will be subject to federal and provincial income taxes in Canada to the extent they are not sheltered by existing tax pools. As such, effective January 1, 2010, the income of CES will be subject to tax and accordingly future income taxes have been recorded relating to temporary differences expected to reverse after this date.

The provision for income taxes differs from the result that would have been obtained by applying the combined Canadian statutory federal and provisional income tax rates for the following reasons:

	Year Ended December 31,	
$000's	**2009**	2008
Net earnings before taxes	**4,975**	15,311
Income tax rate	**29.65%**	30.15%
Expected income tax expense	**1,475**	4,617
Effects on taxes resulting from		
Income distributed to partners	**(1,856)**	(4,858)
Non-deductible expenses	**(293)**	(798)
Effect of future tax rates on temporary differences	**347**	319
Reduction of future income tax due to rate changes	**(73)**	-
Other	**(217)**	51
Adjustment to future income tax liability for accelerated recognition	**(816)**	-
Income tax in jurisdictions with different tax rates	**(256)**	(197)
Valuation allowance	**(851)**	991
Income tax expense	**(2,540)**	125

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

	As at	
$000's	**December 31, 2009**	December 31, 2008
Property and equipment	**542**	313
Goodwill and other intangible assets	**1,465**	2,067
Financing costs	**(588)**	(132)
Non-capital losses	**(2,192)**	(1,011)
Other	**53**	-
Valuation allowance, net	**-**	767
Total, net future income tax (asset) liability	**(720)**	2,004
Future income tax asset	**1,949**	-
Future income tax liability	**1,229**	2,004

The federal non-capital losses expire in 2027 and beyond.

13. Unitholders' Equity

a) Authorized

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units.

b) Issued and outstanding

A summary of the changes to unitholders' equity for the year is presented below:

	Year Ended December 31, 2009		Year Ended December 31, 2008	
Class A Units *($000's except units)*	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of year	**9,018,315**	**84,352**	7,229,460	66,959
Equity issue, net of share issue costs and tax	**1,000,000**	**9,550**	1,234,200	11,868
Consideration for acquired business	**223,054**	**1,793**	380,488	3,900
Consideration for acquisition of intangible asset	**-**	**-**	75,000	600
Issued pursuant to Unit Bonus Plan	**20,500**	**224**	75,500	810
Issued pursuant to Unit Option Plan	**45,500**	**353**	23,475	186
Contributed surplus related to unit option exercise	**-**	**129**	-	29
Issued pursuant to Distribution Rights Plan	**8,718**	**-**	192	-
Units repurchased	**(50,000)**	**(467)**	-	-
Conversion of Subordinated Class B Units	**2,151,486**	**21,514**	-	-
Balance, end of year	**12,417,573**	**117,448**	9,018,315	84,352

	Year Ended December 31, 2009		Year Ended December 31, 2008	
Subordinated Class B Units	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of year	**2,151,486**	**21,514**	2,151,486	21,514
Conversion of Subordinated Class B Units	**(2,151,486)**	**(21,514)**	-	-
Balance, end of year	**-**	**-**	2,151,486	21,514

On January 9, 2009, the Partnership repurchased for cancellation 50,000 Class A Units for total aggregate consideration of $1.00 which had previously been held in escrow as a result of the previous acquisition of the Drilling Fluid Technology in June of 2008. In conjunction with this transaction, the Drilling Fluid Technology previously acquired has been returned. For accounting purposes, the value of the shares repurchased was computed as $7.00 per unit for a total of $350 representing the deemed fair value of the Drilling Fluid Technology which was returned.

On March 1, 2009, the subordination period relating to the Subordinated Class B Units expired pursuant to the terms of the

Amended and Restated Limited Partnership Agreement dated March 2, 2006. Following the end of the subordination agreement, the Subordinated Class B Units could be exchanged, on a one for one basis, for Class A Units. On March 11, 2009, 1,075,743 Subordinated Class B Units were exchanged for an equivalent number of Class A Units. On April 14, 2009, the remaining 1,075,743 Subordinated Class B Units were exchanged for an equivalent number of Class A Units.

Pursuant to the Partnership's acquisition of the business assets of Clear Environmental Solutions Inc. on June 26, 2008, the Partnership issued 223,054 Class A Units of the Partnership on August 28, 2009 as partial settlement of $1,793 of the maximum eligible earn-out consideration of $2,000 with the remaining $207 balance of the earn-out paid out in cash subsequent to year-end. Refer to note 17 for additional information.

On December 15, 2009, the Partnership, through a syndicate of underwriters, completed a bought deal private placement equity financing pursuant to which the Partnership issued 1,000,000 Class A Units at $10.00 per Class A Unit for gross proceeds of $10,000. Net proceeds after offering expenses and underwriters' commissions of $633 net of tax of $183, were $9,550.

c) Earnings per unit

In calculating the basic and diluted earnings per unit for the respective years ended December 31, 2009 and 2008, the weighted average number of units used in the calculation is shown in the table below:

	Year Ended December 31,	
$000's, except unit and per unit amounts	**2009**	2008
Net earnings and comprehensive earnings	**7,515**	15,186
Weighted average number of units outstanding:		
Basic units outstanding	**11,267,540**	10,391,369
Effect of dilutive securities	**46,535**	-
Diluted units outstanding	**11,314,075**	10,391,369
Net earnings per unit basic	**$0.67**	$1.46
Net earnings per unit diluted	**$0.66**	$1.46

For the year ended December 31, 2009, a total of 1,557,368 vested and unvested dilutive security equivalents were excluded in the computation of diluted earnings per unit (2008 – 771,812)

14. Unit-Based Compensation

As at December 31, 2009, a total of 1,241,757 Class A Units were reserved for issuance under the Unit Option Plan, the Distribution Rights Plan, and the Unit Bonus Plan of which 429,630 Class A Units remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan

CES' Option Plan provides incentives to the employees, officers, and directors of CES or its subsidiaries, and certain service providers by issuing options to acquire common shares. Options granted 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. As discussed in note 24, in conjunction with the Arrangement, CES has adopted a Stock Incentive Rights Plan for any new issuances effective 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 to the unit options granted under the Unit Option Plan is presented below:

(Unless otherwise stated, all amounts in thousands of Canadian dollars, except unit and per unit amounts)

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of year	**725,500**	**$9.08**	695,000	$8.78
Granted during the year	**85,000**	**6.38**	158,500	10.27
Exercised during the year	**(45,500)**	**7.80**	(23,475)	7.92
Forfeited during the year	**(82,500)**	**9.70**	(104,525)	9.15
Balance, end of year	**682,500**	**$8.75**	725,500	$9.08
Exercisable options, end of year	**515,584**	**$9.14**	377,505	$9.07

The following table summarizes information about the Unit Options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options	Weighted average exercise price	Weighted average term remaining in years	Options	Weighted average exercise price
$5.53 - $8.00	284,000	$6.91	2.36	174,000	$7.30
$8.01 - $11.31	398,500	10.07	1.88	341,584	10.08
	682,500	$8.75	2.08	515,584	$9.14

The fair value of the unit options granted during the year ended December 31, 2009 was $266. For the year ended December 31, 2009, unit-based compensation expense of $760 (2008 - $1,131) was recorded relating to the Partnership's Unit Option Plan. The compensation costs for unit options granted during the year were calculated using the Black-Scholes option pricing model using the following assumptions:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Risk-free interest rate	**1.85% - 1.89%**	2.98% - 4.50%
Expected life of options	**5 years**	5 years
Dividend yield	**Nil**	Nil
Expected volatility	**55% - 56%**	49% - 56%
Weighted average fair value per unit	**$3.13**	$4.87

b) Partnership Distribution Rights Plan

The Partnership's Distribution Rights Plan provides long-term incentive to directors, officers, employees, and service providers of the Partnership who are providing services to the Partnership, the General Partner, or their affiliates through the issuance of Distribution Rights which are redeemable for Class A Units on the basis of distributions paid by the Partnership, thereby reflecting the total returns to holders of Class A Units. Under the Distribution Rights Plan, Class A Units are accumulated in the notional accounts of Distribution Rights holders. As noted in note 24, in conjunction with the Arrangement effective January 1, 2010, the Partnership's Distribution Rights Plan was terminated and all accumulated Class A Units were issued subsequent to year end. A summary of the changes to the Class A Units accumulated under the Distribution Rights Plan is presented below:

Class A Units Accumulated From Distribution Rights	**Year Ended December 31, 2009**	Year Ended December 31, 2008
Balance, beginning of year	**46,812**	-
Granted during the year	**100,782**	51,290
Redeemed during the year	**(8,718)**	(192)
Forfeited during the year	**(9,249)**	(4,286)
Balance, end of year	**129,627**	46,812

c) Partnership Unit Bonus Plan

The Partnership's Unit Bonus Plan is used to provide additional compensation, in lieu of cash bonuses, to the employees, officers, and certain service providers of the Partnership, subsidiaries of the Partnership, or the General Partner through the issuance of up to an aggregate maximum of 125,000 Class A Units. As of December 31, 2009, a total of 96,000 Bonus Units have been issued pursuant to the Unit Bonus Plan. During the year ended December 31, 2009, the Partnership recognized $67 of unit-based compensation expense (2008 - $966 respectively) relating to the Unit Bonus Plan. As noted in note 24, in conjunction with the Arrangement, effective January 1, 2010, the Partnership's Unit Bonus Plan was terminated.

15. Contributed Surplus

The following table reconciles the Partnership's contributed surplus:

$000's	**December 31, 2009**	December 31, 2008
Contributed surplus, beginning of year	**1,531**	273
Unit-based compensation	**827**	1,287
Units repurchased at less than carrying value	**117**	-
Units issued pursuant to Unit Bonus Plan	**(224)**	-
Exercise of unit options	**(129)**	(29)
Contributed surplus, end of year	**2,122**	1,531

16. Cash Distributions

The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the year ended December 31, 2009 as follows:

$000's except per unit amounts	**Distribution Record Date**	**Distribution Payment Date**	**Per Class A Unit**	**Per Class B Unit**	**Total**
Jan 1 - 31	Jan 31	Feb 15	0.0792	-	**710**
Feb 1 - 28	Feb 28	Mar 15	0.0792	-	**710**
Jan 1 - Feb 28	Feb 28	Apr 15	-	0.1584	**426**
Mar 1 - 31	Mar 31	Apr 15	0.0792	0.0792	**796**
Apr 1 - 30	Apr 30	May 15	0.0792	-	**882**
May 1 - 31	May 31	Jun 15	0.0792	-	**882**
Jun 1 - 30	Jun 30	Jul 15	0.0792	-	**882**
Jul 1 - 31	Jul 31	Aug 15	0.0792	-	**883**
Aug 1 - 31	Aug 31	Sep 15	0.0792	-	**900**
Sep 1 - 30	Sep 30	Oct 15	0.0792	-	**900**
Oct 1 - 31	Oct 31	Nov 15	0.0792	-	**901**
Nov 1 - 30	Nov 30	Dec 15	0.0792	-	**902**
Dec 1 - 31	Dec 31	Jan 15	0.0792	-	**984**
Total distributions declared during the year			0.9504	0.2376	**10,759**

As noted in note 13, on March 1, 2009, the subordination period relating to the Subordinated Class B Units expired pursuant to the terms of the Amended and Restated Limited Partnership Agreement. Following this, distributions to Subordinated Class B Units were made on a monthly basis. Effective April 11, 2009, all outstanding Subordinated Class B Units had been converted to Class A Units.

17. Commitments, Earn-Out Payable, and Deferred Acquisition Consideration
The Partnership has commitments with payments due as follows:

$000's	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Office rent	714	710	379	35	-	**1,838**
Vehicle operating leases	44	28	23	-	-	**95**
Total	758	738	402	35	-	**1,933**

The Partnership 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 Partnership's financial position or results of operations and therefore the commitment table does not include any commitments for outstanding litigation and potential claims.

In connection with the acquisition of the business assets of Clear Environmental Solutions Inc. on June 12, 2008, the Partnership was required to pay consideration pursuant to the earn-out payment of $2,000. The consideration payable under the agreement was determined by subtracting $2,400 from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the twelve month period ended June 30, 2009 and multiplying the result by a four times multiple. On August 28, 2009, $1,793 of this amount was satisfied through the issuance of 223,054 Class A Units of the Partnership. The Partnership has accrued a liability of $207 relating to the remaining earn-out payable. The earn-out payable was settled in cash subsequent to December 31, 2009.

In conjunction with the Champion acquisition, the Partnership recorded $2,431 in deferred acquisition consideration. Of this, $2,098 (US$2,000) of the deferred acquisition consideration is payable in cash upon the earlier of the second anniversary of the acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the United States. Currently, the Partnership anticipates that this will be payable during 2010 and as such has classified the liability as a current liability.

18. Financial Instruments and Risk Management
a) Financial instrument measurement and classification
The classification of financial instruments remains consistent at December 31, 2009 with that at December 31, 2008.

The following tables provide fair value measurement information for financial assets and liabilities as of December 31, 2009 and 2008. The carrying value of accounts receivable, accounts payable and accrued liabilities, bank indebtedness, earn-out payable, deferred acquisition consideration, distributions payable approximate fair value due to the short-term nature of those instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximate fair value. The carrying value of long-term debt where interest is charged at a fixed rate is not significantly different than fair value. These assets and liabilities are not included in the following tables:

	As At December 31, 2009				
$000's	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Liabilities					
Financial derivative liability	11	11	-	11	-
Total	11	11	-	11	-

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

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

b) Credit risk
Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Partnership. The Partnership manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable includes balances from a large number of customers operating primarily in the oil and natural gas industry. Accordingly, the Partnership views the credit risks on these amounts as normal for the industry. An analysis of accounts receivable, net of impairment provisions, which are past due but not impaired is as follows:

	As at	
$000's	**December 31, 2009**	December 31, 2008
Past due 61-90 days	**2,516**	3,450
Past due 91-120 days	**4**	1,343
Past 120 days	**224**	39
Total past due	**2,744**	4,832

The Partnership reduces an account receivable to its estimated recoverable amount. At December 31, 2009, the Partnership had recorded a provision of $284 (December 31, 2008 - $428) relating to accounts receivable which may not be collectible.

c) Interest rate risk
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Partnership is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Partnership manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2009, the Partnership had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Partnership's net earnings would be approximately $36 lower/higher for the year ended December 31, 2009 (2008 - $48).

d) Foreign currency risk
Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Partnership's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Partnership uses the US dollar as its functional currency for the operations of AES Drillings Fluids, LLC. Gains and/or losses resulting from foreign exchange variances are included in earnings. The Partnership manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease/increase earnings of the Partnership by $7.

At December 31, 2009, the Partnership had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases:

Period	**Notional Balance $000's**	**Contract Type**	**Settlement**	**Average C$/US$ Exchange Rate**
January 2010	US$310	Deliverable Forward	Physical Purchase	$1.0524
February 2010	US$727	Deliverable Forward	Physical Purchase	$1.0542
March 2010	US$176	Deliverable Forward	Physical Purchase	$1.0613
April 2010	US$177	Deliverable Forward	Physical Purchase	$1.0525
Total	US$1,390			$1.0545

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated balance sheet. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Partnership has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the balance sheet as assets or liabilities with changes in their fair value recorded in net earnings for the period. For the year ended December 31, 2009, the Partnership recorded a realized loss of $44 (2008 - $Nil) relating to its foreign currency derivative contracts. For the year ended December 31, 2009, the Partnership recorded an unrealized loss of $11 (2008 - $Nil) relating to its foreign currency derivative contracts. The fair value of these risk management liabilities at December 31, 2009 was $11 (December 31, 2008 – $Nil). During the year ended December 31, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease / increase earnings of the Partnership by $15 (2008 - $Nil) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Partnership's is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Partnership is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall drilling activity and the demand for the Partnership's products and services. In addition, through its operations, the Partnership purchases various chemicals and oil based products and is directly exposed to changes in the prices of these items. As of December 31, 2009, the Partnership had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they become due and describes the Partnership's ability to access cash. The Partnership requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund the Partnership's cash distributions, and settle other liabilities of the Partnership as they come due. The Partnership manages liquidity risk by maintaining a revolving demand loan facility and through management of its operational cash flows. The following table details the remaining contractual maturities of the Partnership's financial liabilities:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	21,212	-	-	-	-	**21,212**
Distributions payable [2]	983	-	-	-	-	**983**
Financial derivative liability	11	-	-	-	-	**11**
Earn-out payable	207	-	-	-	-	**207**
Deferred acquisition consideration	-	2,098	-	-	-	**2,098**
Long-term debt at fixed interest rates [3]	197	592	520	154	-	**1,463**
Long-term debt at floating interest rates [3]	79	238	317	1,566	-	**2,200**
Office and vehicle operating leases	190	568	738	437	-	**1,933**
Total	22,879	3,496	1,575	2,157	-	**30,107**

[1] Payments denominated in foreign currencies have been translated at the respective December 31, 2009 exchange rate

[2] Distributions declared as of December 31, 2009

[3] Long-term debt information reflects principal payments and excludes interest portion

19. Capital Management

For the year ended December 31, 2009, the Partnership considers capital to include unitholders' equity, long-term debt (including current portion), and bank indebtedness. This remains consistent with the year ended December 31, 2008. The Partnership's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk and providing unitholders with targeted distributions.

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

In addition to monitoring the externally imposed capital requirements, as detailed below, the Partnership manages capital by analyzing working capital levels, payout ratio, forecasted cash flows, and general economic conditions. Payout ratio is calculated as distributions declared as a percentage of cash flow from operations before changes in non-cash operating working capital. The Partnership has the following externally imposed capital requirements pursuant to the revolving demand facility agreement:

- The quarterly debt to equity ratio must not exceed 2.50 to 1.00. The ratio of debt to equity is calculated as total liabilities per the financial statements, less future income taxes and net of any cash credit balances, divided by total unitholders' equity per the consolidated financial statements, less any intangible assets including goodwill.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the consolidated financial statements less current portion of long-term debt.
- The Partnership's annual debt service coverage ratio must not be less than 1.25 to 1.00. The debt service coverage ratio is calculated as net earnings for the period, before interest expense, future income tax expense, unit-based compensation, and amortization divided by the sum of all interest and principal payments for the period.

If the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without the prior written consent of the commercial bank. As at December 31, 2009, the Partnership has met all of the requirements under this agreement.

20. Supplemental Information
The changes in non-cash working capital were as follows:

	Year Ended December 31,	
$000's	**2009**	2008
Operating activities		
Decrease (increase) in current assets		
Accounts receivable	**13,765**	(23,662)
Inventory	**1,902**	(4,602)
Prepaid expenses	**52**	(207)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(5,836)**	11,195
	9,883	(17,276)
Investing activities		
Decrease (increase) in current assets		
Accounts receivable	**(650)**	-
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**1,128**	(191)
	478	(191)

21. Segmented Information
The Partnership has three reportable operating segments as determined by management, which are the Drilling Fluids segment, the Trucking segment, and the Environmental Services segment. Due to the growth of the Trucking segment during the recent year, it is now disclosed as a separate segment. Previously, the Trucking segment was included as part of the Drilling Fluids segment. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the Western Canadian Sedimentary Basin and in the United States through its subsidiary, AES Drilling Fluids, LLC. The Trucking segment is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment is comprised of the Partnership's environmental division,

Clear Environmental Services which provides environmental and drilling fluids waste disposal services mostly to oil and gas producers. Selected summary financial information relating to the operational segments is as follows:

	Year Ended December 31, 2009				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	73,148	8,117	9,004	(815)	**89,454**
Gross margin	20,786	2,602	3,324	-	**26,712**
Amortization	1,756	1,046	724	-	**3,526**
Interest expense	422	48	9	-	**479**
Net earnings before taxes	3,499	835	641	-	**4,975**
Total assets	105,387	12,015	13,297	-	**130,699**
Capital expenditures	439	4,015	13	-	**4,467**

	Year Ended December 31, 2008				
$000's	Drilling Fluids	Trucking	Environmental Services (1)	Intercompany Eliminations	Total
Revenue	109,362	5,852	10,451	(596)	125,069
Gross margin	30,690	2,438	3,568	-	36,696
Amortization	1,689	459	453	-	2,601
Interest expense	510	46	30	-	586
Net earnings before taxes	11,687	1,715	1,909	-	15,311
Total assets	98,940	8,823	17,498	-	125,261
Capital expenditures	2,614	3,309	34	-	5,957

(1) The Environmental Services segment is comprised of the Partnership's environmental division which was acquired on June 12, 2008 and as such comparative figures for 2008 represent the period from June 12, 2008 to December 31, 2008.

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

	Revenue	
	Year Ended December 31,	
$000's	**2009**	2008
Canada	**83,197**	120,341
United States (1)	**6,257**	4,728
Total	**89,454**	125,069

(1) AES Drilling Fluids, LLC commenced operations in 2008.

	Long-Term Assets (2)	
$000's	**December 31, 2009**	December 31, 2008
Canada	**66,044**	64,957
United States	**16,980**	1,674
Total	**83,024**	66,631

(2) Includes: Property, plant, and equipment, goodwill, and intangible assets

22. Economic Dependence
For the year ended December 31, 2009, one customer accounted for 11.8% (2008 – 10.6%) of the Partnership's total revenue.

23. Payments to the General Partner
The General Partner will be allocated 0.01% of the income of the Partnership for each fiscal year and 99.99% of the income of the Partnership will be allocated to the holders of Class A Units and Subordinated Class B Units.

24. Subsequent Events
Plan of Arrangement
As outlined in the Joint Information Circular dated November 25, 2009 (the "Circular"), the Partnership entered into a plan of arrangement (the "Arrangement") with Nevaro Capital Corporation ("Nevaro"). The Arrangement was approved by unitholders of the Partnership and by the shareholders of Nevaro on December 22, 2009. The Arrangement was completed effective January 1, 2010. Under the Arrangement, Nevaro transferred certain assets and all of its liabilities to a new corporation ("New Nevaro"), leaving certain tax attributes related to Nevaro's previous operations. Nevaro then acquired all of the Class A Units of the Partnership and all of the shares of Canadian Energy Services Inc., and, in exchange, the previous holders of Class A Units of the Partnership received one common share of Nevaro. Nevaro then changed its name to "Canadian Energy Services & Technology Corp." ("CESTC") which became the parent entity of CES on a go forward basis effective January 1, 2010. Under the Arrangement, New Nevaro received consideration, from the Company, in the aggregate amount of $2,800. CES incurred $586 in costs related to the Arrangement which were expensed during the year ended December 31, 2009.

Unit Option Plan
As outlined in Circular, all outstanding unit options issued under the Unit Option Plan will be exercisable for new common shares of CESTC on a one-for-one basis. Existing grants under the Option Plan shall continue based on the terms and conditions as at the date of the original grant with no accelerated vesting. No new grants shall be made under the Unit Option Plan. A Share Rights Incentive Plan ("SRIP") for any new option grants effective after January 1, 2010 has been adopted. Rights granted under the SRIP 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.

Unit Bonus Plan
In conjunction with the Arrangement, the Partnership's Unit Bonus Plan was terminated effective January 1, 2010.

Distribution Rights Plan
As outlined in Circular, the Distribution Rights Plan was terminated effective January 1, 2010. All accumulated Class A Units as of January 1, 2010 under the Distribution Rights Plan were issued. A total of 122,536 common shares were issued subsequent to year-end pursuant to the termination of the Distribution Rights Plan.

Subordinate Convertible Debenture
Following the conversion to a corporate structure effective January 1, 2010 the subordinate convertible debenture issued pursuant to the acquisition of Champion (note 4) was converted into 791,776 common shares at a conversion price of $8.37 per common share. The common shares issued 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, on each of the first, second, and third anniversaries after closing of the acquisition.

Lease Credit Facility
Subsequent to year-end, on January 14, 2010, CES' credit facilities were amended to add a $5,000 leasing facility ("Leasing Facility"). The ability to draw from the Leasing Facility, the repayment terms and the interest costs are all to be determined by the lender at the time of the draw request.

Information

BOARD OF DIRECTORS
Kyle D. Kitagawa[1]
Chairman

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

[1] Member of the Audit Committee
[2] Member of the Governance and Compensation Committee

OFFICERS
Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
HSBC Bank Canada, Calgary, AB

SOLICITORS
Blake, Cassels & Graydon LLP, Calgary, AB

www.canadianenergyservices.com

REGISTRAR & TRANSFER AGENT
Computershare Investor Services Inc.
Calgary, AB and Toronto, ON

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: CEU

CORPORATE OFFICE
Suite 900, 715 – 5th Avenue SW
Calgary, AB T2P 3H2
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

DIVISIONS
Clear Environmental Solutions
440, 840 - 6th Avenue SW
Calgary, AB T2P 3E5
Phone: 403-263-5953
Fax: 403-229-1306

EQUAL Transport
18029 - Highway 10 East
Edson, AB T7E 1V6
Phone: 780-728-0067
Fax: 780-728-0068

Moose Mountain Mud
Box 32, Highway 9 South
Carlyle, SK S0C 0R0
Phone: 306-453-4411
Fax: 306-453-4401

US OPERATIONS
AES Drilling Fluids, LLC
1625 Broadway, Suite 1480
Denver, CO 80202
Phone: 303-820-2800
Fax: 303-820-2801

Champion Drilling Fluids
708 NW 24th Ave
Norman, OK 73069
Phone: 405-321-1365
Fax: 405-321-3154