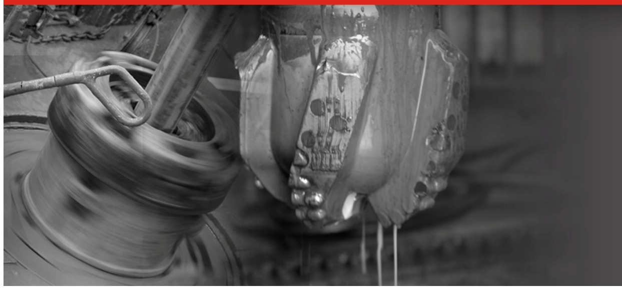

Q2

three and six months ended June 30, 2011

as at August 10, 2011

Canadian Energy SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp., formerly Canadian Energy Services L.P. (collectively "CES" or the "Company") for the three and six months ended June 30, 2011 and the audited annual consolidated financial statements and notes thereto for years ended December 31, 2010 and December 31, 2009 and CES' 2010 Annual Information Form. The information contained in this MD&A was prepared up to and including August 10, 2011 and incorporates all relevant considerations to that date.

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

In particular, this MD&A may contain forward-looking information pertaining to the following: future estimates as to dividend levels; capital expenditure programs for oil and natural gas; supply and demand for CES' products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers; dependence on suppliers of inventory and product inputs; equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada, the United States and internationally; development of new technologies; expectations regarding CES' growth opportunities in the United States; expectations regarding the performance or expansion of CES' environmental, production chemical, and transportation operations; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, taxation of trusts, public partnerships and other flow-through entities, reassessment and audit risk associated with the Conversion; changes to the royalty regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; changes as a result of IFRS adoption; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2010 and "Risks and Uncertainties" in this MD&A.

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

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

CES' unaudited interim condensed Consolidated Financial Statements and the financial information included in the interim MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are expected to be effective as at December 31, 2011, the date of the Company's first annual reporting under IFRS. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "previous GAAP"). Comparative information for years ending on or before December 31, 2009, have been prepared under Canadian GAAP and has not been restated under IFRS.

Note 4 to the interim condensed Consolidated Financial Statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the Consolidated Financial Statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Statement of Financial Position at January 1, 2010, and at June 30, 2010; and
- The Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2010.

The most significant impacts of the adoption of IFRS, together with details of the IFRS 1 exemptions taken, are described in the "Transition to IFRS" section on page 22 of this interim MD&A. The adoption of IFRS does not impact the underlying operations of CES' business or its cash flows.

THREE-FOR-ONE STOCK SPLIT

On June 30, 2011, the Company's shareholders approved a three-for-one split of CES' outstanding common shares (the "Stock Split"). The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 13, 2011. The Company's common shares commenced trading on a post-split basis on July 11, 2011, on the Toronto Stock Exchange. All share data and stock-based compensation plans presented herein have been retroactively adjusted as at June 30, 2011, to give effect to the stock split.

BUSINESS OF CES

The core business of CES is to design and implement drilling fluid systems for the North American oil and natural gas industry. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in various basins in the United States ("US"), with an emphasis on servicing the ongoing major resource plays. The drilling of those major resource plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling is a technique utilized in tight formations like tight gas, tight oil, heavy oil, and in the oil sands. The designed drilling fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. CES' drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process and to assist them in meeting operational objectives and environmental compliance obligations. CES markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of both its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

Clear Environmental Solutions ("Clear"), CES' environmental division, provides environmental and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. The business of Clear involves determining the appropriate processes for disposing of or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids.

EQUAL Transport ("EQUAL"), CES' transport division, provides its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work, and trained personnel to transport and handle oilfield produced fluids and to haul, handle, manage and warehouse drilling fluids. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

PureChem Services ("PureChem"), CES' drilling fluid and production chemical manufacturing division, designs, manufactures and sells specialty drilling fluids for CES and production chemicals for operators. The PureChem facility is located strategically in Carlyle, SK.

CES' head office and the sales and services headquarters are located in Calgary, Alberta and its stock point facilities and other operations are located throughout Alberta, British Columbia, and Saskatchewan. CES' indirect wholly-owned subsidiary, AES

Drilling Fluids, LLC ("AES"), conducts operations in the United States in the Rockies region from its office in Denver, Colorado; in the mid-continent region through its AES East division from its office in Norman, Oklahoma and through its Champion Drilling Fluids division which is headquartered in Elk City, Oklahoma; and in Texas, Louisiana, off-shore Gulf of Mexico and Northeast US through its Fluids Management division headquartered in Houston, Texas. AES has operations in fourteen states with stock point facilities located in Oklahoma, Texas, Pennsylvania, Michigan, Colorado, North Dakota, Louisiana, and Utah.

NON-GAAP MEASURES

The accompanying interim condensed consolidated financial statements have been prepared in accordance with IFRS. Certain supplementary information and measures not recognized under IFRS or previous GAAP are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010 [1]	**2011**	2010 [1]
Net income	**5,506**	(770) [2]	**17,321**	17,698 [2]
Add back (deduct):				
Amortization in cost of sales	**1,466**	773	**2,788**	1,510
Amortization in general and administrative expenses	**868**	428	**1,742**	826
Interest expense, net of interest income	**696**	267	**1,427**	460
Current income tax expense	**2,097**	34	**3,789**	43
Future income tax expense (recovery)	**1,346**	248	**5,220**	(10,140)
Stock-based compensation	**690**	336	**1,497**	443
Unrealized foreign exchange (gain)	**(118)**	45	**(276)**	43
Unrealized derivative (gain) loss	**(12)**	(3)	**(127)**	-
(Gain) loss on disposal of assets	**(38)**	19	**(86)**	24
EBITDAC	**12,501**	1,377	**33,295**	10,907

Notes:
[1] *All 2010 figures have been restated in accordance with International Financial Reporting Standards.*
[2] *Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income (loss) per share for the three and six months ended June 30, 2010 was -$0.02 (-$0.02 diluted) and $0.16 ($0.16 diluted), respectively. Refer to discussion on 'Current and Deferred Income Taxes' below.*

Funds flow from operations – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. Funds flow from operations assists management and investors in analyzing operating performance and leverage. Funds flow from operations is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Cash provided by (used in) operating activities	**11,276**	11,607	**11,532**	1,236
Adjust for:				
Change in non-cash operating working capital	**(1,398)**	(10,539)	**17,111**	9,160
Funds flow from operations	**9,878**	1,068	**28,643**	10,396

Gross margin – means revenue less cost of sales, which includes cost of product, field labour, and all field related operating costs. Management believes this metric provides a good measure of the operating performance at the field level. It should not be viewed as an alternative to net income.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Gross margin	**22,971**	5,707	55,595	20,430
as a percentage of revenue	**26%**	21%	28%	27%
Add back (deduct):				
Amortization included in cost of sales [(1)]	**1,466**	773	**2,788**	1,510
(Gain) loss on disposal of assets included in cost of sales [(1)]	**(38)**	19	**(86)**	24
Cash gross margin	**24,399**	6,499	**58,297**	21,964
as a percentage of revenue	**28%**	24%	**29%**	29%

Notes:
[1] Amortization as it relates to operating activities and (gain) loss on disposal of assets are included in cost of sales under IFRS, and accordingly are added back to the gross margin in order to calculate a 'cash gross margin' consistent with that of historical measurement.

These measures do not have a standardized meaning as prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other companies.

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:
Expansion capital – represents the amount of capital expenditure that has or will be incurred to grow or expand the business or would otherwise improve the productive capacity of the operations of the business.

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

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

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

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

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended June 30,			Six Months Ended June 30,		
($000's, except per share amounts)	**2011**	2010	% Change	**2011**	2010	% Change
Revenue	**86,967**	27,212	219.6%	**198,506**	76,250	160.3%
Gross margin [1]	**22,971**	5,707	302.5%	**55,595**	20,430	172.1%
Gross margin percentage of revenue [1]	**26.4%**	21.0%		**28.0%**	26.8%	
Income (loss) before taxes	**8,949**	(488)	1933.8%	**26,330**	7,601	246.4%
per share – basic [3]	***0.16***	*(0.01)*	*1700.0%*	***0.48***	*0.19*	*152.6%*
per share - diluted [3]	***0.16***	*(0.01)*	*1700.0%*	***0.47***	*0.19*	*147.4%*
Net income (loss)	**5,506**	(770) [2]	815.1%	**17,321**	17,698 [2]	(2.1%)
per share – basic [3]	***0.10***	*(0.02) [2]*	*600.0%*	***0.32***	*0.44 [2]*	*(27.3%)*
per share - diluted [3]	***0.10***	*(0.02) [2]*	*600.0%*	***0.31***	*0.44 [2]*	*(29.5%)*
EBITDAC [1]	**12,501**	1,377	807.8%	**33,295**	10,907	205.3%
per share – basic [3]	***0.23***	*0.03*	*666.7%*	***0.61***	*0.27*	*125.9%*
per share - diluted [3]	***0.22***	*0.03*	*633.3%*	***0.60***	*0.27*	*122.2%*
Funds flow from operations [1]	**9,878**	1,068	824.9%	**28,643**	10,396	175.5%
per share – basic [3]	***0.18***	*0.03*	*500.0%*	***0.52***	*0.26*	*100.0%*
per share - diluted [3]	***0.18***	*0.03*	*500.0%*	***0.51***	*0.26*	*96.2%*
Dividends declared	**6,573**	2,798	134.9%	**12,380**	5,212	137.5%
per share [3]	***0.12***	*0.07*	*74.1%*	***0.23***	*0.13*	*76.9%*

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income (loss) per share for the three and six months ended June 30, 2010 was -$0.02 (-$0.02 diluted) and $0.16 ($0.16 diluted), respectively. Refer to discussion on 'Current and Deferred Income Taxes' below.
[3] Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and six months ended June 30, 2011, in comparison to the three and six months ended June 30, 2010, for CES are as follows:

- CES generated gross revenue of $87.0 million during the second quarter of 2011, compared to $27.2 million for the three months ended June 30, 2010, an increase of $59.8 million or 220% on a year-over-year basis. Year to date, gross revenue totaled $198.5 million, compared to $76.2 million last year, representing an increase of $122.3 million or 160% on a year-over-year basis. During Q2 2011, gross revenue was $1.55 per diluted share compared to $0.67 per diluted share for Q2 2010, an increase of 131%. The year-over-year increases are a result of an increase in activity across all of the business segments of CES. For Canadian operations in Q2 2011, gross revenue from Clear was up 43% over the same period in 2010; Equal revenue was essentially flat year-over-year as Saskatchewan operations were the most severely affected by the wet weather delays, and Canadian drilling fluids revenue was up 52% over Q2 2010 despite the significant delay in drilling activity throughout the WCSB as a result of the extended break-up. The US operations contributed the majority of the year-over-year revenue gains, due to a combination of the Fluids Management acquisition which was completed at the end of Q2 2010, and higher overall activity levels as a result of organic growth achieved across all of the US divisions.

- CES' estimated Canadian Market Share (refer to "Operational Definitions") was approximately 25% for the three months ended June 30, 2011, down slightly from 26% for the three months ended June 30, 2010. Year to date, estimated market share in Western Canada averaged 27% as compared to 26% in during 2010. CES' operating days (refer to "Operational

Definitions") in Western Canada were estimated to be 4,250 for the three month period ended June 30, 2011, an increase of 12% from 3,798 operating days during the same period last year. Canadian operating days during Q2 2011were negatively impacted by wet weather conditions in Western Canada, most notably in SE Saskatchewan and Manitoba, which created an extended break-up. The weather conditions negatively impacted CES market share in Canada as drilling activity in SE Saskatchewan and Manitoba was essentially shut-down in Q2, and this region is a very strong market for CES. Despite challenging weather conditions in Q2, year-to-date operating days in Western Canada were estimated to total 17,981 compared to 14,051 during the same period last year, representing an increase of 28%. Overall industry activity increased approximately 23% from an average monthly rig count in the second quarter of 2010 of 154 to 190 during the second quarter of 2011 based on CAODC published monthly data for Western Canada. Year–to-date, the CAODC average monthly rig count for Western Canada have averaged 362 as compared to 293 in 2010 representing a year-over-year increase of 24%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $22.6 million for the three months ended June 30, 2011, compared to $14.9 million for the three months ended June 30, 2010, representing an increase of $7.7 million or 52%. Due to weather conditions, Q2 is traditionally the slowest quarter of drilling activity in Western Canada. For the six month period ended June 30, 2011, revenue from drilling fluids related sales of products and services in Western Canada was $67.7 million compared to $48.7 million for the six month ended June 30, 2010, representing an increase of $19.0 million or 39%. Daily average revenue per operating day for the three months ended June 30, 2011, was $5,325 compared to $3,947 for the three months ended June 30, 2010, representing an increase of 35%. Q2 daily revenue was positively influenced by the lack of activity in SE Saskatchewan and Manitoba, as these areas tend to have lower daily run rates. Year-to-date, daily average revenue per operating day was $3,768 compared to $3,467 in 2010, representing a year-over-year increase of 9%.

- CES' United States Market Share (refer to "Operational Definitions") for the three months ended June 30, 2011, was estimated to be 6%, up from 2% for the three months ended June 30, 2010. Year to date, estimated market share in the United States averaged 6% as compared to 2% in during 2010. Operating days (refer to "Operational Definitions") in the United States were estimated to be 9,020 operating days for the three month period ended June 30, 2011, an increase of 254% from 2,544 operating days during the same period last year. Estimated operating days during the year-to-date period were 18,722 as compared to 4,677 operating days last year. The significant year-over-year increase in the Company's US results is due to the inclusion of Fluids Management activity (Fluids Management was acquired at the end of Q2 2010 and its operations were not included in the Q2 2010 comparatives) and organic growth achieved from Champion Drilling Fluids and Fluids Management divisions subsequent to their respective acquisitions (the "US Acquisitions").

- Revenue generated in the US from drilling fluid sales of products and services for the three months ended June 30, 2011, was $60.1 million as compared to last year's revenue of $8.5 million, representing an increase of $51.6 million or 607% on a year-over-year basis. Year-to-date, revenue generated in the US totals $115.2 million as compared to $16.0 million in the previous year representing an increase of $99.2 million or 620%. Daily average revenue per operating day for the three months ended June 30, 2011, was $6,659 compared to $3,345 for the three months ended June 30, 2010, representing an increase of 99%. Year-to-date, daily average revenue per operating day was $6,154 compared to $3,428 in 2010, representing a year-over-year increase of 80%.

- During the second quarter of 2011, revenue from trucking operations, gross of intercompany eliminations, totalled $2.5 million, a decrease of $0.03 million or 1% from the three months ended June 30, 2010. Equal's largest theatre of operations is SE Saskatchewan and Manitoba, and the wet weather conditions in Q2 severely curtailed trucking operations. For the year-to-date period, revenue from trucking operations totalled $8.3 million as compared to $6.6 million during 2010 representing an increase of $1.7 million or 26%. The respective year-over-year increase is due primarily to the increased industry activity in Edson and the continued expansion of the Company's trucking operations in both Edson and Saskatchewan.

- Clear Environmental Solutions division generated $2.0 million of revenue for the three month period ended June 30, 2011, compared to $1.4 million during the prior year representing an increase of $0.6 million or 43%. Revenue from Clear for the six month period ended June 30, 2011 totalled $7.6 as compared to $5.5 million for the same period in 2010, representing an increase of $2.1 million or 39%. Year-over-year, the Clear Environmental division has seen higher overall activity levels and continues to benefit from increased integration with the drilling fluids division, from diversification strategies into oil sands and horizontal drilling, and general improvement in industry activity levels.

- For the three month period ended June 30, 2011, CES recorded gross margin of $23.0 million or 26% of revenue, compared to gross margin of $5.7 million or 21% of revenue generated in the same period last year. Year-to-date, gross margin has totalled $55.6 million or 28% of revenue as compared to $20.4 million or 27% last year. Note, under IFRS, amortization as it relates to operating activities and gain or loss on disposal of assets are included in cost of sales. Refer to gross margin reconciliation under "Non-GAAP Measures" for additional information.

- For the three month period ended June 30, 2011, general and administrative costs were $13.3 million as compared to $5.9 million for the same period in 2010, an increase of $7.4 million. For the six month period ended June 30, 2011, general and administrative costs were $27.9 million as compared to $12.3 million for the same period in 2010, representing an increase of $15.6 million. General and administrative costs are higher on a year-over-year comparison due to a combination of factors including the acquisition of Fluids Management at the end of Q2 2010 (which are not included in prior year comparatives) and significantly higher activity during 2011 as compared to 2010. Included in general and administrative expenses during the three and six months ended June 30, 2011, are stock-based compensation costs of $0.7 million and $1.5 million, respectively, and amortization costs of $0.8 million and $1.7 million, respectively.

- EBITDAC (refer to "Non-GAAP Measures") for the three months ended June 30, 2011, was $12.5 million as compared to $1.4 million for the three months ended June 30, 2010, representing an increase of $11.1 million or 808%. For the six month period ended June 30, 2011, EBITDAC totalled $33.3 million as compared to $10.9 million in 2010 representing an increase of $22.4 million or 205%. Included in EBITDAC for the three and six months ended June 30, 2011, is a realized foreign exchange loss of $0.2 million and $0.6 million, respectively which relates to the settlement of certain intercompany working capital balances between CES and its US subsidiary, AES. Excluding the respective intercompany foreign exchange losses, EBITDAC would have been $12.7 million $33.9 million for the respective periods ended June 30, 2011. CES recorded EBITDAC per share of $0.23 ($0.22 diluted) for the three months ended June 30, 2011 versus EBITDAC per share of $0.03 ($0.03 diluted) in 2010. Year-to-date, CES recorded EBITDAC per share of $0.61 ($0.60 diluted) versus EBITDAC per share of $0.27 ($0.27 diluted) in 2010.

- CES recorded a net income of $5.5 million for the three month period ended June 30, 2011, as compared to a net loss of $0.8 million in the prior year. CES recorded a net income per share of $0.10 ($0.10 diluted) for the three months ended June 30, 2011 versus a net loss per share of $0.02 ($0.02 diluted) in 2010. For the six month period ended June 30, 2011 CES recorded net income of $17.3 million, compared with the $17.7 million generated for the same period last year. Year-over year basic net earnings per share were $0.32 ($0.31 diluted) as compared with $0.44 (basic and diluted) per share for the same period in 2010, representing a decrease of $0.12 or 27% on a per share basis. Income for the six months ended June 30, 2010, included the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Accordingly, this resulted in an increase to net income of $11.2 million (2010 Canadian GAAP net income - $6.5 million) as a result of the adoption of IFRS. Refer to 'Current and Deferred Income Taxes' section below for additional discussion.

- CES continued to maintain a strong statement of financial position or "balance sheet" at June 30, 2011, with positive net working capital of $42.0 million (December 31, 2010 - $34.1 million) representing an increase of $7.9 million. The increase in working capital balances is comprised of a $3.1 million increase in accounts receivable, $4.8 million increase in inventory, $3.3 million increase in prepaid expenses, net of a $4.8 million decrease in accounts payable and accrued liabilities, and a net additional draw of $7.9 million on its Operating Facility. The maximum available draw on the $80.0 million facility at June 30, 2011, based on the accounts receivable and inventory balances, was $66.9 million (December 31, 2010 - $72.1 million).

RESULTS FOR THE PERIODS

	Three Months Ended June 30,			
($000's, except per share amounts)	**2011**	2010	$ Change	% Change
Revenue	**86,967**	27,212	59,755	219.6%
Cost of sales	**63,996**	21,505	42,491	197.6%
Gross margin [(1)]	**22,971**	5,707	17,264	302.5%
Gross margin percentage of revenue [(1)]	**26.4%**	21.0%		
General and administrative expenses	**13,287**	5,861	7,426	126.7%
Finance costs	**735**	334	401	120.1%
Income (loss) before taxes	**8,949**	(488)	9,437	1933.8%
Current income tax expense	**2,097**	34	2,063	N/A
Future income tax expense (recovery)	**1,346**	248	1,098	442.7%
Net income (loss)	**5,506**	(770) [(3)]	6,276	815.1%
Net income (loss) per share – basic [(4)]	***0.10***	*(0.02) [(3)]*	*0.12*	*600.0%*
Net income (loss) per share – diluted [(4)]	***0.10***	*(0.02) [(3)]*	*0.12*	*600.0%*
EBITDAC [(1)]	**12,501**	1,377	11,124	807.8%

Common Shares Outstanding	**2011**	2010	% Change
End of period [(4)]	**54,803,235**	44,292,537	23.7%
Weighted average			
- basic [(4)]	**54,712,282**	40,458,033	35.2%
- diluted [(4)]	**56,123,443**	40,458,033	38.7%

	As at		
Financial Position ($000's)	**June 30, 2011**	December 31, 2010	% Change
Net working capital	**42,010**	34,117	23.1%
Total assets	**296,537**	287,870	3.0%
Long-term financial liabilities [(2)]	**4,682**	5,278	(11.3%)
Shareholders' equity	**183,247**	179,017	2.4%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Includes long-term portion of vehicle financing, committed loans, and finance leases.*
[3] *Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net loss per share for the three months ended June 30, 2010 was $0.02 ($0.02 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.*
[4] *Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.*

	Six Months Ended June 30,			
($000's, except per share amounts)	**2011**	2010	$ Change	% Change
Revenue	**198,506**	76,250	122,256	160.3%
Cost of sales	**142,911**	55,820	87,091	156.0%
Gross margin [1]	**55,595**	20,430	35,165	172.1%
Gross margin percentage of revenue [1]	**28.0%**	26.8%		
General and administrative expenses	**27,873**	12,342	15,531	125.8%
Finance costs	**1,392**	487	905	185.8%
Income before taxes	**26,330**	7,601	18,729	246.4%
Current income tax expense	**3,789**	43	3,746	N/A
Future income tax expense (recovery)	**5,220**	(10,140)	15,360	(151.5%)
Net income	**17,321**	17,698 [2]	(377)	(2.1%)
Net income (loss) per share – basic [3]	***0.32***	*0.44 [2]*	*(0.12)*	*(27.3%)*
Net income (loss) per share – diluted [3]	***0.31***	*0.44 [2]*	*(0.13)*	*(29.5%)*
EBITDAC [1]	**33,295**	10,907	22,388	205.3%

Common Shares Outstanding	**2011**	2010	% Change
End of period [3]	**54,803,235**	44,292,537	23.7%
Weighted average			
- basic [3]	**54,569,804**	40,281,746	35.5%
- diluted [3]	**55,829,581**	40,638,997	37.4%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income per share for the six months ended June 30, 2010 was $0.16 ($0.16 diluted). Refer to discussion on 'Current and Deferred Income Taxes' below.*
[3] *Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.*

Revenue and Operating Activities

CES generated gross revenue of $87.0 million during the second quarter of 2011, compared to $27.2 million for the three months ended June 30, 2010, an increase of $59.8 million or 220% on a year-over-year basis. For the six month period ended June 30, 2011, CES generated gross revenue of $198.5 million as compared to $76.2 million for the same period in 2010, representing an increase of $122.3 million or 160%. The respective year-over-year increases reflect the inclusion of Fluids Management results in the six months ended June 30, 2011 (Fluids Management was acquired at the end of Q2 2010 and is not included in prior year comparatives), and an increase in activity and revenue across all of CES' business segments as drilling activity continued to rebound off the lows experienced in 2009 throughout the North American Market ("NAM"). CES' dominant business line, the drilling fluids segment, experienced the most material gains over 2010 as a result of increased industry activity and a continuing industry trend to drill more complex, horizontal wells. Despite challenging weather conditions in Q2 2011, CES capitalized on this trend in the WCSB through its leading market share position; and in the US through completing the US Acquisitions, and the organic growth that the Company has been able to generate off of these acquired platforms.

Of the revenue generated during the second quarter of 2011, $22.6 million (2010 - $14.9 million) was generated in the Western Canadian drilling fluids business; $60.1 million (2010 - $8.5 million) was generated in the US drilling fluids business; $2.0 million (2010 - $1.4 million) was contributed by the Clear environmental division, and $2.5 million, gross of intercompany eliminations, (2010 - $2.5 million) was generated by trucking operations.

For the six month period ended June 30, 2011, $67.7 million (2010- $48.7 million) was generated in the Western drilling fluids business; $115.2 million (2010 - $16.0 million) was generated in the US drilling fluids business; $7.6 million (2010 - $5.5 million) was contributed by the Clear environmental division, and $8.3 million, gross of intercompany eliminations, (2010 - $6.6 million) was generated by trucking operations.

The active CAODC monthly rig count in Western Canada averaged 190 for the three months ended June 30, 2011, based on CAODC published monthly data for Western Canada representing a 23% increase from the average rig count of 154 during the second quarter of 2010. Year-to-date, the CAODC average monthly rig count for Western Canada has averaged 362 compared to 293 in 2010, representing a year-over-year increase of 24%.

CES estimated operating days (refer to "Operational Definitions") from its drilling fluids services are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Canada	**4,250**	3,798	**17,981**	14,051
USA	**9,020**	2,544	**18,722**	4,677
Total Operating Days	**13,270**	6,342	**36,703**	18,728

CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada was 25% for the three months ended June 30, 2011, which was down slightly from 26% for the three months ended June 30, 2010. In Q2 2011, wet weather conditions impacted both Canadian Market Share and operating days in Canada as drilling activity was curtailed throughout the WCSB and particularly in SE Saskatchewan and Manitoba as this region was essentially shut-down in Q2, and this region is a very strong market for CES. Despite the challenging weather conditions in Q2 which hampered operators, year-to-date CES' estimated market share in Western Canada averaged 27% compared to 26% for the same period in 2010. CES believes its technology focused solutions have resulted in an increased market share in Western Canada as a larger percentage of drilling activity is focused on deep and horizontal wells and the economics of drilling have become more difficult for operators.

In the United States, CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended June 30, 2011, was estimated to be 6%, up from 2% for the three months ended June 30, 2010. Year-to-date, CES' estimated market share in the United States averaged 6% compared to 2% for the same period in 2010. The significant year-over-year increase in the Company's US results is due to the inclusion of Fluids Management activity (Fluids Management was acquired at the end of Q2 2010) and the organic growth achieved from the US Acquisitions.

Revenue per estimated operating day for the Canadian and US drilling fluids segments was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Canadian Drilling Fluids	**5,325**	3,947	**3,768**	3,467
United States Drilling Fluids	**6,659**	3,345	**6,154**	3,428

For the three and six months ended June 30, 2011, CES top five customers accounted for 40% and 35%, respectively, of total revenue as compared to 31% and 25% for the same period in 2010. For the three and six months ended June 30, 2011, two customers accounted for 26% and one customer accounted for 15%, respectively, of the Company's total revenue, whereas in the same period in 2010 no single customer exceeded 10% of total revenue.

Overall, CES' drilling fluid business continues to focus on the ongoing major resource plays and, in particular, horizontal drilling activity. Horizontal drilling represents a significantly increasing share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex wells. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled, and becomes even more critical as operators drill horizontally.

Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, field related amortization, and all other related field costs. Under IFRS, field related amortization of property and equipment, as well as gains and losses on disposal of assets relating to field equipment, is included in the gross margin calculation. Please refer to gross margin reconciliation under "Non-GAAP Measures" for a reconciliation of gross margin under IFRS to previous GAAP. Margins vary due to a change in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, trucking, environmental, etc.). Generally, labour costs have less of an impact on CES' margins than other cost elements such as product costs. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services. CES achieved gross margin of $23.0 million or 26% of revenue for the three month period ended June 30, 2011, as compared to $5.7 million or 21% of revenue in 2010. Year-to-date, CES achieved a gross margin of $55.6 million or 28% of revenue compared to $20.4 million or 27% of revenue for the same period in 2010. As noted above, included in cost of sales for the three months ended June 30, 2011, was amortization of field related property and equipment of $1.5 million (2010 – $0.8 million) and a gain on disposal of assets of $0.03 million (2010 – loss of $0.02). Included in cost of sales for the six months ended June 30, 2011, was amortization of field related property and equipment of $2.8 million (2010 – $1.5 million) and a gain on disposal of assets of $0.09 million (2010 – loss of $0.02).

General and Administrative Expenses ("G&A")

As CES' business has expanded geographically into the US and as activity levels have risen, so have the associated G&A expenses to run the business. G&A for the three month period ended June 30, 2011, was $13.3 million as compared to $5.9 million for the same period in 2010, representing an increase of $7.4 million or 127% year-over-year. Year-to-date, G&A was $27.9 million as compared to $12.3 million for the same period in 2010, representing an increase of $15.6 million or 126%. G&A costs are higher on a year-over-year comparison due to a combination of factors including the inclusion of Fluids Management general and administrative costs during the current year, higher staff levels and the associated compensation costs, and higher activity during 2011 as compared to 2010. Included in general and administrative expenses for the three and six months ended June 30, 2011, are stock-based compensation costs of $0.7 million and $1.5 million, respectively (2010 - $0.3 million and $0.4 million), and amortization of $0.8 million and $1.7 million, respectively (2010 - $0.4 million and $0.8 million). G&A costs as a percentage of revenue for the three and six months ended June 30, 2011, were 15% and 14%, respectively (2010 – 22% and 16%).

Amortization

Amortization of property, equipment, and intangibles totalled $2.3 million for the three month period ended June 30, 2011, as compared to $1.2 million during 2010. For the three months ended June 30, 2011, $1.5 million (2010 – $0.8 million) of amortization was included in cost of sales and $0.8 million (2010 – $0.4 million) was included in general and administrative expenses. Year-to-date, amortization of property, equipment, and intangibles totalled $4.5 million as compared to $2.3 million during 2010. For the six months ended June 30, 2011, $2.8 million (2010 – $1.5 million) of amortization was included in cost of sales and $1.7 million (2010 – $0.8 million) was included in general and administrative expenses. The year-over-year increase in amortization expenses is primarily attributable to the expanded operations of CES compared to the previous year including additional trucks and trailers for the trucking division and the increase in amortization of fixed and intangible assets relating to the Company's US Acquisitions.

Stock-Based Compensation

Stock-based compensation was $0.7 million for the three months ended June 30, 2011, as compared to $0.3 million during the same period last year. Year-to-date, stock-based compensation was $1.5 million for as compared to $0.4 million during the same period last year. The respective year-over-year increase is primarily attributable to the issuance of share rights under the new share rights incentive plan during the second half of 2010 and during 2011.

Interest Expense

Finance costs include interest expense of $0.7 million for the three months ended June 30, 2011, compared to $0.3 million, net of capitalized interest of $0.008 million, for Q2 2010. Year-to-date, CES incurred interest expense of $1.5 million, net of capitalized interest of $0.04 million, as compared to $0.5 million, net of capitalized interest of $0.012 million during 2010. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various long-term debt, operating loan facility, and lease facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans, committed debt facilities, capitalized lease facilities, and the operating loan facility.

Foreign Exchange Gains and Losses

Finance costs for the three months ended June 30, 2011, include a net foreign exchange loss of $0.09 million primarily related to foreign exchange losses on the Company's US denominated cash. For the six months ended June 30, 2011, CES recorded a net foreign exchange loss of $0.1 million primarily related to foreign exchange losses on the Company's US denominated cash balances. Included within this net foreign exchange loss for the three and six months ended June 30, 2011 is a realized foreign exchange loss of $0.2 million and $0.6 million, respectively, which relates to the settlement of certain intercompany working capital balances between CES and its US subsidiary, AES.

Realized and Unrealized Derivative Gains and Losses
Finance costs for the three and six month periods ended June 30, 2011, include realized derivative gains of $0.04 million and $0.04 million, respectively (2010 –$0.006 and $0.021 million), relating to its foreign currency derivative contracts. For the three and six month periods ended June 30, 2011, CES recorded an unrealized gain of $0.01 million and $0.1 million, respectively (2010 – a loss of $0.003 million and $Nil) relating to its foreign currency derivative contracts. As of June 30, 2011, the Company had financial derivative assets of net $0.2 million relating to its outstanding derivative contracts.

CES has a Board approved risk management policy that sets out the guidelines and parameters management follows when approaching its risk management strategies. At June 30, 2011, the Company had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases pursuant to its Canadian operations:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
July 2011	US$299	Deliverable Forward	Physical Purchase	$0.9722
August 2011	US$212	Deliverable Forward	Physical Purchase	$0.9734
Total	US$511			$0.9727

At June 30, 2011, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to upcoming US dollar denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
July 2011	US$636	Deliverable Forward	Physical Sale	$0.9958
August 2011	US$636	Deliverable Forward	Physical Sale	$0.9967
September 2011	US$636	Deliverable Forward	Physical Sale	$0.9974
October 2011	US$636	Deliverable Forward	Physical Sale	$0.9982
November 2011	US$636	Deliverable Forward	Physical Sale	$0.9991
December 2011	US$636	Deliverable Forward	Physical Sale	$0.9953
January 2012	US$636	Deliverable Forward	Physical Sale	$0.9956
February 2012	US$636	Deliverable Forward	Physical Sale	$0.9860
March 2012	US$636	Deliverable Forward	Physical Sale	$0.9868
April 2012	US$636	Deliverable Forward	Physical Sale	$0.9700
May 2012	US$636	Deliverable Forward	Physical Sale	$0.9853
June 2012	US$636	Deliverable Forward	Physical Sale	$0.9895
Total	US$7,632			$0.9913

Current and Deferred Income Taxes
During the three and six months ended June 30, 2011, the Company recorded current income tax expense of $2.1 million and $3.8 million respectively as compared to $0.03 million and $0.04 million respectively in 2010 relating to taxable income in the US in which the Company does not have loss carry forwards to offset.

Upon the completion of the Conversion in January 2010, CES acquired a significant Canadian tax shelter in the form of non-capital and capital loss pools. As a result of the transition to IFRS, the calculated full future benefit of the acquired non-capital losses has been recorded in the Q1 2010 comparative period and the resulting increase to net income has been credited to retained earnings in Q1 2010. This accounting under IFRS has significantly altered the 2010 comparative figures with respect to net income and earnings per share calculations as detailed in various sections throughout this MD&A.

In the second quarter of 2011, the Company recorded a deferred income tax expense of $1.3 million compared to a deferred income tax expense of $0.2 million in Q2 2010. Year-to-date, the Company recorded a deferred income tax expense of $5.2 million compared to a deferred income tax recovery of $10.1 million in the prior year. The deferred income tax expense recorded for the three and six months ended June 30, 2011, relates to a combination of changes in the temporary differences as well as the estimated use of the Company's non-capital tax loss pools in both Canada and the United States.

In Q1 2010, the accounting treatment under IFRS of the deferred tax credit recognized upon completion of the Conversion is the most significant change from Canadian GAAP upon adoption of IFRS. As previously reported under Canadian GAAP, a future income tax asset of $15.5 million and deferred tax credit of $12.7 million were recognized effective January 1, 2010, with the difference of $2.8 million representing the consideration paid to Nevaro. During 2010, under Canadian GAAP, the deferred tax credit was amortized in proportion to the corresponding future income tax asset as the tax pools were utilized.

Under IFRS, a deferred tax asset was recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred tax asset recognized in the three months ended June 30, 2010, was initially measured at an amount equal to the consideration paid of $2.8 million and immediately following the Conversion the deferred tax asset was re-measured to the extent that it is probable that the associated tax losses will be utilized. Based on management's estimate, it is expected that all non-capital tax loss pools will be fully utilized, however, the Company has not recorded any deferred tax asset with respect to its capital loss carry forward pools. As such, in Q1 2010 this has resulted in an increase to the deferred tax asset with an equal and offsetting increase to deferred income tax recovery in the period. There is no deferred tax credit recorded on acquisition of the deferred tax losses or subsequent to the completion of the transaction. As a result, the Company has made an adjustment to reverse any previously recognized deferred tax credit and has made an adjustment to recognize any previously unrecognized deferred tax assets to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered. The initial total deferred tax asset recognized under both Canadian GAAP and IFRS is $15.5 million. The re-measurement was recognized in income in the first quarter of 2010 upon transition to IFRS. Accordingly, for the three and six months ended June 30, 2010, deferred income tax expense has decreased by $0.2 million and deferred income tax recovery has increased by $11.2 million when compared to previous Canadian GAAP for the respective periods.

Net Working Capital

At June 30, 2011, the Company had positive net working capital of $42.0 million (December 31, 2010 - $34.1 million) representing an increase of $7.9 million. The increase in working capital balances is comprised of a $3.1 million increase in accounts receivable, $4.8 million increase in inventory, $3.3 million increase in prepaid expenses, net of a $4.8 million decrease in accounts payable and accrued liabilities, and a net additional draw of $7.9 million on its Operating Facility. The maximum available draw on the $80.0 million facility at June 30, 2011, based on the accounts receivable and inventory balances, was $66.9 million (December 31, 2010 - $72.1 million). Actual amounts drawn on the facility as at June 30, 2011, was $52.1 million (December 31, 2010 - $44.2 million).

Total Current Assets

Total current assets of CES increased from $134.6 million at December 31, 2010 to $146.0 million at June 30, 2011. The increase is primarily due to an increase in accounts receivable balances of $3.1 million, an increase of $4.8 million in inventory balances, and an increase of $3.3 million in prepaid expenses.

Total Long-Term Assets

Total long-term assets of CES decreased by $2.7 million to $150.6 million at June 30, 2011, from $153.3 million at December 31, 2010. Of the $2.7 million decrease during the quarter, notable changes include a $3.5 million decrease in intangible assets and goodwill relating to the amortization of intangible assets, and the translation of the US dollar-denominated intangible assets and goodwill balances, a $3.7 million decrease in future income tax asset relating to the use of the Company's non-capital tax loss pools, offset by an increase of $4.4 million in property and equipment.

Long-Term Financial Liabilities

CES had long-term debt totalling $3.0 million at June 30, 2011, compared to $3.6 million at December 31, 2010, for a decrease of $0.6 million. During the six month period ended June 30, 2011, the Company made long-term scheduled debt and lease repayments totalling $1.7 million on its vehicle debt and credit facilities. At June 30, 2011, long-term financial liabilities were comprised of vehicle financing loans totalling $1.5 million and committed facilities totalling $3.1 million, net of the current portion of long-term debt of $1.6 million.

	As at	
$000's	**June 30, 2011**	December 31, 2010
Vehicle financing loans	**1,503**	1,633
Committed loan facilities	**3,109**	3,507
	4,612	5,140
Less current portion of long-term debt	**(1,586)**	(1,584)
Long-term debt	**3,026**	3,556

At June 30, 2011, the Company had finance lease liabilities of $3.0 million, net of the current portion of $1.3 million, for an increase of $0.1 million compared to December 31, 2010.

$000's	**June 30, 2011**	December 31, 2010
Finance lease obligations	**3,022**	2,906
Less current portion of finance lease obligations	**(1,366)**	(1,184)
Long-term finance lease obligations	**1,656**	1,722

Shareholders' Equity
Shareholders' equity increased from $179.0 million at December 31, 2010 to $183.2 million at June 30, 2011. The year-to-date increase in shareholders' equity during the period is primarily attributable to the $17.3 million in net income of CES, cash proceeds of $1.8 million relating to the exercise of stock options, offset by $4.0 million increase in accumulated other comprehensive loss relating to the translation of the Company's wholly owned US subsidiary, and $12.4 million of dividends declared by the Company during the year. As a result of the transition to IFRS, shareholder's equity increased by $8.0 million from $171.0 million under Canadian GAAP to $179.0 million under IFRS as at January 1, 2010. Refer to the 'Transition to IFRS' section below for additional information on the impact of the transition on shareholders' equity.

SEGMENTED RESULTS

In Q2 2011, CES had two geographical segments: Canada and the United States. Geographical information relating to the Company's activities is as follows:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Canada	**26,902**	18,703	**83,297**	60,218
United States	**60,065**	8,509	**115,209**	16,032
Total	**86,967**	27,212	**198,506**	76,250

The significant year-over-year increase in the Company's US results is due to the inclusion of Fluids Management activity (Fluids Management was acquired at the end of Q2 2010 and its operations were not included in the Q2 2010 comparatives) and organic growth achieved from Champion Drilling Fluids and Fluids Management divisions subsequent to their respective acquisitions.

In Q2 2011, CES had three reportable operating segments as determined by management: Drilling Fluids, Trucking, and Environmental Services. 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. The Trucking segment (EQUAL) 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 consists of Clear Environmental Services which provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta and in Alberta's oil sands. At this time, the results of the PureChem division are not separately disclosed and are included as part of the Drilling Fluids segment.

Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended June 30, 2011				
Segmented Information ($000's)	**Drilling Fluids (2)**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**82,696**	**2,485**	**1,985**	**(199)**	**86,967**
Cost of sales	**60,214**	**2,792**	**1,189**	**(199)**	**63,996**
Gross margin	**22,482**	**(307)**	**796**	**-**	**22,971**
Income (loss) before taxes	**9,752**	**(734)**	**(69)**	**-**	**8,949**
EBITDAC (1)	**12,058**	**327**	**116**	**-**	**12,501**

	Three Months Ended June 30, 2010				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	23,501	2,511	1,441	(241)	27,212
Cost of sales	18,694	2,186	866	(241)	21,505
Gross margin	4,807	325	575	-	5,707
Loss before taxes	(369)	(1)	(118)	-	(488)
EBITDAC (1)	873	438	66	-	1,377

	Six Months Ended June 30, 2011				
Segmented Information ($000's)	**Drilling Fluids (2)**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**182,954**	**8,328**	**7,583**	**(359)**	**198,506**
Cost of sales	**131,600**	**6,885**	**4,785**	**(359)**	**142,911**
Gross margin	**51,354**	**1,443**	**2,798**	**-**	**55,595**
Income before taxes	**24,877**	**608**	**845**	**-**	**26,330**
EBITDAC (1)	**30,478**	**1,608**	**1,209**	**-**	**33,295**

	Six Months Ended June 30, 2010				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	64,751	6,552	5,454	(507)	76,250
Cost of sales	47,803	5,088	3,436	(507)	55,820
Gross margin	16,948	1,464	2,018	-	20,430
Income before taxes	6,150	822	629	-	7,601
EBITDAC (1)	8,409	1,671	827	-	10,907

Notes:
1 Refer to the "Non-GAAP Measures" for further detail.
2 Results from PureChem operations for the three and six months ended June 30, 2011, have been included in the Drilling Fluids segment.

Drilling Fluids Segment

For the three months ended June 30, 2011, revenue from the Drilling Fluids segment totalled $82.7 million compared to $23.5 million for the three months ended June 30, 2010, representing an increase of $59.2 million or 252%. For the three months ended June 30, 2011, revenue per operating day for the Drilling Fluids Segment totalled $6,232 compared to $3,706 for the three months ended June 30, 2010. Year-to-date revenue from the Drilling Fluids Segment totalled $183.0 million as compared to $64.8 last year representing an increase of $118.2 million or 183% on a year over year basis. Year-to-date revenue per operating day for the Drilling Fluids Segment totalled $4,985 compared to $3,457 for the same period in 2010.

CES' estimated Canadian Market Share (refer to "Operational Definitions") was 25% for the three months ended June 30, 2011, down slightly from 26% for the three months ended June 30, 2010. Year-to-date, CES' estimated market share in Western Canada averaged 27% as compared to 26% in 2010. CES' operating days (refer to "Operational Definitions") in Western

Canada were estimated to be 4,250 for the three month period ended June 30, 2011, an increase of 12% from the 3,798 operating days during the same period last year. Year-to-date, operating days in Western Canada were estimated to total 17,981 compared to 14,051 during the same period last year, representing an increase of 28%. Overall industry activity increased approximately 23% from an average monthly rig count of 154 during the second quarter of 2010 to 190 during the second quarter of 2011 based on CAODC published monthly data for Western Canada. Year–to-date, the CAODC average monthly rig count for Western Canada have averaged 362 as compared to 293 in 2010 representing a year-over-year increase of 24%. The wet weather conditions impacted both CES market share and operating days in Canada as drilling activity was curtailed throughout the WCSB and particularly in SE Saskatchewan and Manitoba as this region was essentially shut-down in Q2, and this region is a very strong market for CES.

CES' estimated United States Market Share (refer to "Operational Definitions") increased to 6% for the three months ended June 30, 2011, up from 2% for the three months ended June 30, 2010. Year-to-date, CES' estimated market share in the United States averaged 6% as compared to 2% in 2010. In the United States, estimated operating days for the three months ended June 30, 2011 were 9,020 as compared to 2,544 operating days during the same period last year. Year-to-date, operating days in the United States were estimated to total 18,722 compared to 4,677 during the same period last year, representing an increase of 300%. The respective period-over-period increases in activity and revenue in the US in 2011 compared to 2010 are primarily due to the two accretive US Acquisitions and the organic growth that the Company has been able to generate off of these platforms.

Gross margin for the Drilling Fluids segment was $22.5 million or 27% of revenue for the three months ended June 30, 2011, as compared to $4.8 million or 20% of revenue during the prior year. Year-to-date, the Drilling Fluids segment achieved a gross margin of $51.4 million or 28% compared to $16.9 million or 26% last year.

Trucking Segment

Revenue from the Trucking segment, gross of intercompany eliminations, was $2.5 million for the three month period ended June 30, 2011, as compared to $2.5 million during last year. Equal's largest theatre of operations is SE Saskatchewan and Manitoba, and the wet weather conditions in Q2 severely curtailed trucking operations. Year-to-date, the Trucking segment had total revenue, gross of intercompany eliminations, of $8.3 million as compared to $6.6 million during the same period in 2010 representing an increase of $1.7 million or 26%. Gross margin for the Trucking segment was -$0.3 million or -12% of revenue for the three months ended June 30, 2011, as compared to $0.3 million or 13% of revenue during the prior year. The negative gross margin is primarily attributable to the inclusion of amortization expense in cost of goods sold. Year-to-date gross margin for the Trucking segment was $1.4 million or 17% of revenue as compared to $1.5 million or 22% of revenue during the prior year. Under IFRS, included in the gross margin for the three and six months ended June 30, 2011, was amortization on field property and equipment of $0.5 million and $1.0 million, respectively (2010 - $0.4 million and $0.8 million) and a gain on disposal of assets of $nil and $0.03 million (2010 – loss of $0.02 and $0.02). As a result of the transition to IFRS, gross margins are consequently lower. Under Canadian GAAP, for the three and six months ended June 30, 2011 the gross margin would have been 9% and 30% (2010 – 29% and 35% respectively). Year-over-year, trucking margins have improved in part as a result of increased economies of scale achieved in the Carlyle, Saskatchewan trucking operations and the continued expansion of its operations and increased activity in both Carlyle and Edson.

Environmental Services Segment

Revenue from the Environmental Services segment was $2.0 million for the three month period ended June 30, 2011, as compared to $1.4 million generated for the same period of 2010 representing an increase of $0.6 million or 43%. Year-to-date revenue for the Environmental Services totalled $7.6 million as compared to $5.5 million in 2010, representing an increase of $2.1 million or 39%. During the second quarter, gross margin from the Environmental Services segment was $0.8 million or 40% of revenue as compared to $0.6 million or 40% for the same period during 2010. Year-to-date, the gross margin from the Environmental Services Segment was $2.8 million or 37% of revenue as compared to $2.0 million or 37% in 2010. The Environmental Services segment has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling which has helped support revenue growth in 2011.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Revenue	**86,967**	111,539	94,468	78,398
Gross margin [1]	**22,971**	32,624	26,281	21,695
Net income (loss)	**5,506**	11,815	9,424	7,184
per share– basic [2]	***0.10***	*0.22*	*0.18*	*0.15*
per share– diluted [2]	***0.10***	*0.21*	*0.17*	*0.14*
EBITDAC [1]	**12,501**	20,792	17,124	13,453
per share– basic [2]	***0.23***	0.38	*0.32*	*0.29*
per share– diluted [2]	***0.22***	0.37	*0.31*	*0.26*
Funds flow from operations [1]	**9,878**	18,765	16,380	12,784
per share– basic [2]	***0.18***	0.34	*0.30*	*0.27*
per share– diluted [2]	***0.18***	0.34	*0.30*	*0.24*
Dividends declared	**6,573**	5,807	5,042	3,786
per share [2]	***0.12***	*0.11*	*0.09*	*0.08*
Shares Outstanding [2]				
End of period	**54,803,235**	54,479,985	54,395,487	53,202,537
Weighted average – basic	**54,712,282**	54,425,742	53,776,982	46,656,015
Weighted average – diluted	**56,123,443**	55,809,750	54,504,694	52,651,985

	Three Months Ended [6]			
($000's, except per share amounts)	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009
Revenue	27,212	49,038	27,303	19,219
Gross margin [1]	5,707	14,723	9,160	6,085
Net income (loss) [4]	(770) [5]	18,468	5,857	718
per share– basic [2]	*(0.02)* [5]	*0.46*	*0.17*	*0.06*
per share– diluted [2]	*(0.02)* [5]	*0.46*	*0.17*	*0.06*
EBITDAC [1] [3] [4]	1,377	9,530	4,373	2,004
per share– basic [2]	*0.03*	*0.24*	*0.13*	*0.18*
per share– diluted [2]	*0.03*	*0.23*	*0.12*	*0.18*
Funds flow from operations [1] [3]	1,068	9,291	4,169	1,922
per share– basic [2]	*0.03*	*0.23*	*0.12*	*0.17*
per share– diluted [2]	*0.03*	*0.23*	*0.12*	*0.17*
Dividends declared	2,798	2,414	2,787	2,683
per share [2]	*0.07*	*0.12*	*0.12*	*0.06*
Shares Outstanding [2]				
End of period	44,292,537	40,409,427	37,252,719	34,134,165
Weighted average – basic	40,458,033	40,103,500	34,728,608	29,261,542
Weighted average – diluted	40,458,033	40,557,063	35,295,394	29,434,908

Notes:

[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011 all per share data has been retroactively adjusted to reflect the stock split.
[3] Prior year balances recomputed to conform to current year financial statement presentation.
[4] For the three months ended December 31, 2009, includes $0.6 million of one-time Conversion related transaction cost.
[5] Net income and net income per share for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Historically, under Canadian GAAP, net income (loss) per share for the three and six months ended June 30, 2010 was -$0.02 (-$0.02 diluted) and $0.16 ($0.16 diluted), respectively. Refer to discussion on 'Current and Deferred Income Taxes' above.
[6] 2009 comparative figures have not been restated to IFRS and are presented in accordance with Canadian GAAP and as such may not be comparable.

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, the Company had net working capital of $42.0 million (December 31, 2010 - $34.1 million) representing an increase of $7.9 million.

On March 22, 2011, the Company entered into the New Credit Agreement with a commercial bank providing for the New Senior Credit Facility (the "Operating Facility"), permitting it to borrow up to $80.0 million, subject to the value of certain accounts receivable and inventory.

The Operating Facility is secured by: (a) in respect of the Company, a floating change demand debenture, a debenture pledge agreement and a general security agreement creating a security interest in all present and after-acquired personal property of the Company, (b) in respect of AES and AES Drilling Fluids Holdings, LLC ("AES Holdco"), guarantees and general security agreements creating a security interest in all present and after-acquired personal property of AES and AES Holdco, respectively, and (c) in respect of Canadian Energy Services Inc. ("the General Partner"), the Partnership and CES Operations Ltd., guarantees, floating charge demand debentures, debenture pledge agreements and general security agreements creating a security interest in all present and after-acquired personal property of the General Partner, the Partnership, and CES Operations Ltd., respectively.

At June 30, 2011, CES had a net draw of $52.1 million on its Operating Facility (December 31, 2010 - $44.2 million). The maximum available draw on the $80.0 million Operating Facility at June 30, 2011, based on the accounts receivable and inventory balances, was $66.9 million (December 31, 2010 - $72.1 million). The Operating Facility bears interest at approximately the bank's prime rate plus 1.25% and has a standby rate of 0.35% on any unused portion of the facility.

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

1. Non-revolving committed loan facility 1 - As of June 30, 2011, there was $1.4 million outstanding (December 31, 2010 - $1.4 million) on the loan. The loan is repayable in fixed monthly principal payments of $9,725 plus interest at the bank's prime rate plus 1.40%. The loan has a remaining term of two years (April 2013), with the bank reserving the right to extend the term by two additional five year periods at its discretion.
2. Non-revolving committed loan facility 2 - As of June 30, 2011, there was $0.4 million outstanding (December 31, 2010 - $0.5 million) on the loan. The loan has a remaining term of two years (April 2013) with fixed monthly principal payments of $16,667 plus interest at the bank's prime rate of interest plus 1.40%.
3. Non-revolving demand loan facility 3 - As of June 30, 2011, there was $1.4 million outstanding (December 31, 2010 - $1.6 million) on the loan. The loan has a remaining term of three years (March 2014) with fixed monthly principal payments of $41,667 plus interest at the bank's prime rate of interest plus 1.40%.
4. Bank Leasing Facility of up to $5.0 million of which $2.1 million has been drawn on to date - As of June 30, 2011, the Company had an outstanding balance owing on these lease facilities of $1.4 million. The Company's leases are for terms ranging from March 2013 to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75% resulting in monthly payments of approximately $0.06 million.

In conjunction with the Operating Facility, the following are some of the key financial covenants imposed on CES:

- The quarterly total debt to consolidated tangible net worth must not exceed 2.50 to 1.00. The ratio of debt to tangible net worth is calculated as total liabilities per the consolidated financial statements, less future income taxes, less any indebtedness that has been subordinated and postponed to the bank, divided by the total of stated capital, contributed surplus, retained earnings, and any indebtedness that has been subordinated and postponed to the bank less any intangible asset less any future income tax assets.
- 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 consolidated financial statements divided by current liabilities per the consolidated financial statements excluding the current portion of long-term debt and capital lease obligations and any indebtedness that has been subordinated and postponed to the bank.

- The ratio of Funded Debt to Trailing EBITDA must not exceed 3.00 to 1.00.
- The Company shall not make any dividend payments to shareholders upon the occurrence and during the continuance of or the making of which would give rise to or cause i) an Event of Default or ii) any event or condition which, with the giving of notice, lapse of time or upon declaration or determination being made (or any combination thereof), would constitute an Event of Default.

As at June 30, 2011, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 8.8%, with a weighted average rate of 6.3%, and have termination dates ranging from October 2011 to December 2014. At June 30, 2011, outstanding vehicle loans totalled $1.4 million as compared to $1.7 million at December 31, 2010.

Generally, credit and equity markets have continued to improve over the last two years. However, in the event that CES' lender is unable to or chooses not to fund, it would impair CES' ability to operate until alternative sources of financing were obtained as access to the operating line funding is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under its debt facilities.

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. The volatility in the financial markets since mid-2008 has impacted the availability of both credit and equity in the marketplace. In the event that it is required, it may be difficult to issue additional equity or increase credit capacity and the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions on CES. In addition, despite the improvements in crude oil prices, natural gas prices continue to remain relatively weak in terms of historical norms. Continued weak natural gas prices may negatively impact the demand for the Company's products and services in the future. As a result, there has been a greater emphasis on evaluating credit capacity, credit counterparties, and liquidity by CES to ensure its ability to be able to meet its ongoing commitments and obligations.

Cash Flows From Operating Activities
For the three months ended June 30, 2011, cash flow from operating activities was an outflow of $11.3 million compared to $11.6 million during the prior year. Funds flow from operations (Refer to "Non-GAAP Measures" for further detail), which takes into consideration changes in non-cash working capital, for the three months ended June 30, 2011, was a $9.9 million inflow as compared to $1.1 million during 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Cash provided by (used in) operating activities	**11,276**	11,607	**11,532**	1,236
Adjust for:				
Change in non-cash operating working capital	**(1,398)**	(10,539)	**17,111**	9,160
Funds flow from operations	**9,878**	1,068	**28,643**	10,396

Cash Flows From Investing Activities
For the three months ended June 30, 2011, net cash outflows from investing activities totalled $2.5 million compared to $ 43.6 million for the three months ended June 30, 2010.

For the three months ended June 30, 2011, $2.7 million was spent on property and equipment (net of $0.3 million in vehicle financing and leases). CES had $0.3 million of additions related to maintenance capital and $2.6 million of additions related to expansion capital gross of vehicle financing. Notable additions during the three month period ended June 30, 2011, included $0.3 million of vehicles, $0.8 million of trucks and trailers, $1.1 million on the purchase of tanks, warehouse, field, and processing equipment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2011**	2010	**2011**	2010
Expansion capital	**2,598**	1,154	**7,732**	2,446
Maintenance capital	**320**	582	**734**	1,056
Total investment in property and equipment	**2,918**	1,736	**8,466**	3,502
Vehicle financing and leases	**(315)**	(187)	**(1,234)**	(621)
Capital expenditures	**2,603**	1,549	**7,232**	2,881
Change in non-cash investing working capital	**(157)**	(301)	**539**	397
Cash used for investment in property and equipment	**2,446**	1,248	**7,771**	3,278

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

Cash Flows From Financing Activities
For the six month period ended June 30, 2011, cash flow from financing activities was a cash outflow of $4.2 million compared to a cash inflow of $47.3 million during 2010. For the three months ended June 30, 2011, cash flow from financing activities totalled a cash outflow of $8.9 million compared to a cash inflow of $32.0 million during the comparative prior year period. For the three month period ended June 30, 2011, CES repaid $0.8 million of its long-term debt balances, paid dividends to shareholders totalling $6.6 million, repaid $3.0 million on its Operating Facility, and received cash proceeds of $1.5 million relating to the exercise of stock options.

Dividend Policy
The below dividend discussion has been retroactively adjusted to give effect to the Stock Split. During the second quarter, CES declared monthly dividends of $0.04 per share for April, May, and June for a total of $0.12 per share for the quarter. This compares to $0.02 per share for the months of April and May and $0.027 per share for the month of June for a total of $0.067 per share for the comparable quarter in 2010.

$000's except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share (1)**	**Total**
January	Jan 31	Feb 15	$0.033	**1,814**
February	Feb 28	Mar 15	0.033	**1,814**
March	Mar 31	Apr 15	0.040	**2,179**
April	Apr 30	May 13	0.040	**2,189**
May	May 31	Jun 15	0.040	**2,192**
June	Jun 30	Jul 15	0.040	**2,192**
Total dividends declared during the period			$0.226	**12,380**

(1) Pursuant to the three-for-one split of CES' outstanding common shares, dividend payments per common share have been retroactively adjusted to reflect the stock split.

Through the course of the year, monthly dividends declared as a proportion of net earnings and cash flow from operations will vary significantly based on the activity levels of the Company's operations. During periods of higher activity, dividends declared as a percentage of net income and cash flow from operations will decrease, and likewise, during lower activity periods dividends declared as a percentage of net income and cash flow from operations will increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, dividends may be funded through CES' surplus cash reserves or by accessing CES' credit facilities.

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

Subsequent to June 30, 2011, the Company declared dividends to holders of common shares in the amount of $0.04 per common share payable on August 15, 2011 for shareholders of record on July 31, 2011.

Shareholders' Equity
On June 30, 2011, the Company's shareholders approved a three-for-one Stock Split of CES' outstanding common shares. The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 13, 2011. All share data and stock-based compensation plans presented herein have been retroactively adjusted as at June 30, 2011, to give effect to the Stock Split. As of June 30, 2011, CES had a total of 54,803,235 common shares outstanding. As of the date of this MD&A, CES had a total of 54,836,235 common shares outstanding.

Stock-based Compensation
As at June 30, 2011, a total of 5,480,324 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan of which 2,066,522 remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan
At June 30, 2011, a total of 163,800 (December 31, 2010 – 229,050) options were outstanding at a weighted average exercise price of $2.47. As at June 30, 2011, a total of 41,799 options were exercisable at a weighted average price of $2.20. As of the date of this MD&A, there were a remaining 163,800 options outstanding. As a result of the Conversion effective January 1, 2010, all prior grants under the Option Plan will continue based on the terms and conditions of the original grant and all outstanding options issued under the Option Plan will be exercisable for new common shares of CES on a one for one basis. No new grants shall be made under the Option Plan.

b) Share Rights Incentive Plan ("SRIP")
At June 30, 2011, a total of 3,250,002 Share Rights were outstanding (December 31, 2010 – 3,511,500) at a weighted average exercise price of $6.13 (assuming all SRIP's are exercised at their respective original exercise price) of which 67,500 were exercisable. As of the date of this MD&A, an aggregate of 3,217,002 Share Rights remaining outstanding, of which 52,500 have vested.

c) Restricted Share Unit Plan ("RSU")
As approved by the shareholders of CES and effective June 30, 2011, the Company implemented the RSU Plan which provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSU's. The RSU's shall vest and be redeemed on the first anniversary from the date of grant, subject to the absolute discretion of 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. No grants have been made under the RSU plan for the six months ended June 30, 2011.

Commitments / Contractual Obligations
At June 30, 2011, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**6 months - 2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Office and facility rent	646	1,189	702	248	245	**3,030**

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

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

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

In conjunction with the Fluids Management acquisition, the Company has $4.8 million (US$5.0 million) in additional deferred acquisition consideration payable in cash upon the Fluids Management division achieving an EBITDA target of US$9.5 million for the twelve month period post close. As of the date of this MD&A the target threshold has been exceeded and the Company expects to pay the deferred acquisition consideration of US$5.0 million in the third quarter of 2011.

TRANSITION TO IFRS

Effective January 1, 2011, International Financial Reporting Standards replaced Canada's current Generally Accepted Accounting Principles for all publicly accountable profit-oriented enterprises. The Company has adopted IFRS effective January 1, 2010, ("the Transition Date") and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The Company's consolidated financial statements for the year ending December 31, 2011, will be the first annual financial statements that comply with IFRS. The Company will ultimately prepare its opening IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2011. Accordingly, the opening IFRS statement of financial position and the December 31, 2010 comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011, may differ from those presented at this time.

We have completed all three IFRS project phases and have successfully integrated IFRS into our day-to-day operations. The adoption of IFRS has not changed the strategy of CES nor has it impacted our underlying business activities. Overall, our cash flows have not been impacted by the transition.

IFRS 1 – First Time Adoption

In preparing these consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. Based on management's analysis of the various accounting policy choices available, the IFRS 1 optional exemptions applied are described below:

(i) Business combinations

The Company has applied the business combinations exemption under IFRS 1 to not apply IFRS 3, "Business Combinations", retrospectively to past business combinations. Accordingly, Management has elected not to restate any business combinations that have occurred prior to the Transition Date.

(ii) Share-based payment transactions

The Company has elected to apply IFRS 2, "Share-based Payments" ("IFRS 2"), to equity instruments granted after November 7, 2002, which have not vested by the Transition Date. Accordingly, Management has elected not to restate the stock-based compensation expense for stock-based payments granted and vested prior to the Transition Date. Further, CES changed its accounting policy with respect to stock-based compensation, effective January 1, 2010, for new issuances under the Share Rights Incentive Plan to comply with the IFRS guidelines under IFRS 2. The resultant change required CES to account for an estimate of forfeitures at the time of grant and the associated compensation expense on a tranche by tranche basis.

(iii) Borrowing costs

IAS 23, "Borrowing Costs", has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is before January 1, 2010. Accordingly, the Company has not capitalized borrowing costs relating to qualifying assets for which the commencement date for capitalization was before January 1, 2010.

(iv) Fair value or revaluation as deemed cost

IAS 16, "Property, plant, and equipment", allows for property and equipment to continue to be carried at cost less depreciation, as determined under Canadian GAAP. Accordingly, the Company has elected to carry its property and equipment at historical cost less accumulated amortization.

Impact on Historical Key Performance Indicators previously reported under Canadian GAAP
The following tables summarize the impact of IFRS on certain key performance metrics monitored by Management for the three and six months ended June 30, 2010, as prepared under Canadian GAAP and IFRS:

	Three Months Ended June 30, 2010		
	Canadian GAAP	IFRS	% Change [2]
Revenue	27,212	27,212	0%
Gross margin	6,500	5,707	-12%
EBITDAC [1]	1,378	1,377	0%
Loss before taxes	(501)	(488)	-3%
Net loss	(960)	(770) [3]	-20% [3]
Funds flow from operations [1]	1,069	1,068	0%

	Six Months Ended June 30, 2010		
	Canadian GAAP	IFRS	% Change [2]
Revenue	76,250	76,250	0%
Gross margin	21,967	20,430	-7%
EBITDAC [1]	10,910	10,907	0%
Income before taxes	7,565	7,601	0%
Net income	6,505	17,698 [3]	172% [3]
Funds flow from operations [1]	10,395	10,396	0%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *The adoption of IFRS has not had a material impact on the key performance metrics monitored by Management with the exception of the treatment of the deferred tax credit under IFRS. Refer to discussion on 'Current and Deferred Income Taxes' above.*
[3]*Net income for 2010, as reported under IFRS, reflects the recognition of the inclusion of the entire benefit of the tax attributes related to the Conversion transaction. Refer to discussion on 'Current and Deferred Income Taxes' above.*

Impact of IFRS Adoption on Significant Accounting Policies and Estimates
The Company's IFRS accounting policies are provided in Note 3 to the interim condensed Consolidated Financial Statements for the three months ended March 31, 2011. In addition, Note 4 to the interim condensed Consolidated Financial Statements presents reconciliations between the Company's 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Statements of Financial Position as at January 1, 2010 and June 30, 2010 and the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2010.

The following tables summarize the adjustments made to the Company's statement of financial position and statement of comprehensive income:

	As at	
	June 30, 2010	January 1, 2010
Deficit as reported under Canadian GAAP	(32,370)	(33,663)
IFRS adjustments increase (decrease):		
Stock-based compensation	166	139
Leases	(3)	(1)
Deferred tax	11,157	-
Borrowing costs	12	-
	11,332	138
Deficit as reported under IFRS	(21,038)	(33,525)

	Three months ended June 30, 2010	Six months ended June 30, 2010
Net income (loss) as reported under Canadian GAAP	(960)	6,505
IFRS adjustments increase (decrease):		
Stock-based compensation	6	27
Leases	(1)	(3)
Deferred tax	177	11,157
Borrowing costs	8	12
	190	11,194
Net income (loss) as reported under IFRS	(770)	17,698

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's statement of financial position is set out below, and is based on the standards as published on the Company's Transition Date. Accordingly, the opening IFRS statement of financial position and the December 31, 2010, comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011, may differ from those presented at this time.

Stock-Based Compensation
Under Canadian GAAP, the Company recognized compensation expense associated with stock-based compensation plans with graded vesting features on a straight line basis over the vesting period. Under IFRS, the Company is required to treat each "tranche" of a stock-based compensation arrangement as a separate grant which results in the recognition of compensation expense on an accelerated basis as compared to Canadian GAAP. Further, IFRS requires that an estimate of the number of awards expected to vest be accounted for at the date of the grant. As a result, this decreased contributed surplus and decreased deficit by $0.1 million at the date of transition and decreased general and administration expenses by $0.006 million and $0.03 million for the three and six months ended June 30, 2010, with a corresponding decrease to contributed surplus for each of the respective periods.

Leases
In contrast to Canadian GAAP, IAS 17 does not contain numerical thresholds to determine the nature of any particular lease. As a result, certain leases of vehicles and trucks currently classified as operating leases were classified as finance leases under IFRS. The effect of this change in classification at the Transition Date is to increase property and equipment by $0.2 million (June 30, 2010 – $0.3 million) net of the related accumulated depreciation charge of $0.055 million (June 30, 2010 – $0.08 million) on the finance leases, and increase total finance lease obligations by $0.2 million (June 30, 2010 – $0.3 million). Lease expense on the operating leases under previous Canadian GAAP will be reversed.

Deferred Income Taxes & Deferred Tax Credit
The accounting treatment under IFRS of the deferred tax credit is the most significant change from Canadian GAAP upon adoption of IFRS. Under Canadian GAAP, a future income tax asset of $15.5 million and deferred tax credit of $12.7 million were recognized upon completion of the Conversion, effective January 1, 2010, with the difference of $2.8 million representing the consideration paid to Nevaro. During 2010, the deferred tax credit was amortized in proportion to the corresponding future income tax asset as the tax pools were utilized.

Under IFRS, a deferred tax asset shall be recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be able to utilize unused tax losses and unused tax credits. As such, the deferred tax asset recognized in the three months ended March 31, 2010, would have been initially measured at an amount equal to the consideration paid of $2.8 million and immediately following the transaction, CES would have re-measured the deferred tax asset to the extent that it is probable that tax losses will be utilized. This would result in an increase to the deferred tax asset with an equal and offsetting increase to deferred income tax recovery in the period. There would be no deferred tax credit recorded on acquisition of the deferred tax losses or subsequent to the completion of the transaction. As a result, the Company has made an adjustment to reverse any previously recognized deferred tax credit and to recognize any previously unrecognized deferred tax assets to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered. Any re-measurement has been recognized in income for the period. Accordingly, deferred income tax recovery has been increased by

$0.2 million and $11.2 million, respectively, for the three and six month periods ended June 30, 2010, with a corresponding elimination of the deferred tax credit upon transition.

Accordingly, under IFRS, the value of the deferred tax credit will be $nil, with the offset being recorded as a deferred income tax recovery during the six months ended June 30, 2010, thus resulting in an increase to net income of $11.2 million in the respective period. Subsequent to 2010, because the full benefit of the tax losses acquired with respect to the Conversion have now been recognized in 2010, the Company anticipates future period net income amounts to be correspondingly lower than they would otherwise have been under Canadian GAAP.

Borrowing Costs
Under Canadian GAAP, the Company expensed borrowing costs as incurred. At the Transition Date, the Company elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the Transition Date. Accordingly, finance costs have decreased by $0.008 million and $0.012 million, respectively, for the three and six month periods ended June 30, 2010, with a corresponding increase to property and equipment.

Impairment of Assets
Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying value of goodwill at the operating segment level compared to its fair value. If the carrying value of goodwill is greater than its corresponding fair value, an impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. Under IFRS, goodwill is tested for impairment at the cash generating unit ("CGU") level. If the carrying value of each CGU exceeds the greater of fair value less cost to sell or value in use, an impairment loss is recognized in the CGU. The Company's impairment analysis as of January 1, 2010, and December 31, 2010, indicated that the recoverable amount of the net assets for each cash generating unit exceeded its respective carrying value and, therefore, no indication of impairment existed.

Property and Equipment
In contrast to Canadian GAAP, IFRS permits items of property and equipment to be measured either at fair value or amortized cost. In this regard, CES expects to continue to reflect property and equipment at its historic amortized cost. Further, IFRS requires that significant asset parts (i.e. components) are recognized and depreciated separately. CES has assessed componentization under IFRS to be very similar to how the assets have been componentized by the Company under Canadian GAAP and the impact on CES' statement of financial position upon adoption of IFRS was not material.

Financial Statement Presentation & Disclosure:
Under IFRS, the Company presents its statement of comprehensive income under a functional disclosure approach resulting in certain expense classifications, namely amortization expenses and stock-based compensation expense, being presented as part of cost of sales and general and administrative expenses on the statement of comprehensive income.

Internal Controls
The conversion to IFRS does not have a significant impact on the current control environment, business processes, financial systems, or IT systems. There have been no significant changes in CES' internal control over financial reporting during the six month period ended June 30, 2011, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' consolidated financial statements are the impairment of goodwill, the amortization of property, equipment and intangible assets, deferred income taxes, and stock-based compensation.

FUTURE ACCOUNTING PRONOUNCEMENTS

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

In May 2011, the IASB issued the following new and amended standards:

- IFRS 9, "*Financial Instruments*" is intended to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk;
- IFRS 10, "*Consolidated Financial Statements*" ("IFRS 10") replaces IAS 27, "*Consolidated and Separate Financial Statements*" ("IAS 27") and Standing Interpretations Committee ("SIC") 12, "*Consolidation – Special Purpose Entities*". IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent;
- IFRS 11, "*Joint Arrangements*" ("IFRS 11") replaces IAS 31, "*Interest in Joint Ventures*" ("IAS 31") and SIC 13, "*Jointly Controlled Entities – Non-Monetary Contributions by Venturers*". This standard requires a party to assess its rights and obligations from the arrangement in order to determine the type of joint arrangement. The choice of proportionate consolidation accounting is removed for joint ventures (formerly jointly controlled entities) as equity accounting is required;
- IFRS 12, "*Disclosure of Interest in Other Entities*" ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28, "*Investments in Associates*". It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities;
- IFRS 13, "*Fair Value Measurement*" ("IFRS 13") provides a consistent and less complex definition of fair value, establishes a single source for determining fair value, and introduces consistent requirements for disclosures related to fair value measurement;
- IAS 1, "*Presentation of Financial Statements*" ("IAS 1") requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application;
- IAS 19, "*Employee Benefits*" ("IAS 19") improves the accounting for employee benefits by eliminating the 'corridor method' to defer recognition of gains and losses, presentation changes for assets and liabilities arising from defined benefit plan, and introducing enhanced disclosure requirements for defined benefit plans;
- IAS 27, "*Separate Financial Statements*" has been amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements;
- IAS 28, "*Investments in Associates and Joint Ventures*" has been amended to conform to the changes made in IFRS 10 and IFRS 11;

Except as noted above, all of the above pronouncements are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently evaluating the impact of adopting these standards.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

The drilling industry is cyclical and the business of CES is directly affected by fluctuations in the level and complexity of oil and natural gas exploration and development activity carried on by its clients. In Canada, drilling activity is seasonal and, in turn, throughout North America it is directly affected by a variety of factors including: weather; oil, natural gas, and natural gas liquids prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in North America and, in turn, demand for CES' products and services. There was a dramatic reduction in crude oil and natural gas prices during the last half of 2008. Crude oil prices have recovered but continue to face volatility in the face of macro-economic forces, natural gas prices remain relatively weak compared to recent historical standards and continue to experience significant volatility. This, along with reduced access to capital, especially for junior and intermediate producers, resulted in a decline in industry drilling activity levels in the WCSB and the United States in 2009 compared to prior years. Beginning in Q4 2009 activity levels began to rebound and this upward trend continued throughout 2010 and so far into 2011. As a result, CES has experienced an increase in the demand for its services over this period.

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 performance of the Company. As the business continues to expand in the US, it is expected that the overall seasonality of the Company's operations will be less pronounced in future periods.

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

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

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

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

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. As an example, during 2009 and 2010, changes were announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

As a result of the US Acquisitions, CES' US footprint and size of operations has been significantly increased. US expansion provides CES with upside potential and reduces certain risks through diversification of operations. It also exposes the Company to additional specific risks including: integration risks of the acquired businesses; currency risk with added exposure to the US dollar; regulatory risks associated with environmental concerns with respect to drilling activity in Northeast US; and the future impact of increased regulatory requirements on drilling activity in the Gulf of Mexico are examples of specific US risks faced by the Company.

The volatility in the financial markets over the past twenty-four months has impacted the general availability of both credit and equity financing in the marketplace. In the face of this uncertainty, in December 2009, CES raised $10 million in the equity markets through the completion of a bought deal private placement financing, and in July 2010 raised an additional $45 million in the equity markets through the completion of another bought deal private placement financing. However, past success is not a guarantee of future success. It may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. In addition, should CES' senior lender be unable to, or choose not to, fund it would impair CES' ability to operate, as access to funds from its demand Operating Facility is critical to the effective execution of the business. CES has not experienced any funding issues under its debt facilities to date.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations

Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion.

Reference should be made to CES' Annual Information Form dated March 17, 2011 for the period ended December 31, 2010, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

OUTLOOK

Crude oil prices have rebounded off their lows of 2009 and, despite the most recent price erosion, appear to have stabilized in a profitable band for operators. Natural gas prices continue to remain relatively weak in context to oil prices and recent history, making the economics of drilling for dry natural gas challenging. In the WCSB, operators have diverted capital to drilling for oil or liquids rich gas or unconventional natural gas. In the US, this same trend is evident and areas such as the Marcellus shale continue to attract significant capital to dry gas drilling.

Beginning in the fourth quarter of 2009, drilling activity levels began to rebound in both the WCSB and the US. This upward trend in activity has continued throughout 2010 and to date in 2011. Despite the wet weather conditions in the WCSB that hampered operators and reduced drilling days in Q2, CES' 2011 results reflect the increase in activity with corresponding revenue gains across all of CES' business segments. As a result of the increased industry activity and a continuing trend by operators to drill more complex horizontal wells, CES' dominant business line, the drilling fluids segment, has experienced the most material gains over comparable results from 2009 and 2010. CES has capitalized on this in the WCSB through its leading market share position and in the US by completing two accretive acquisitions, the Champion acquisition on November 30, 2009 and the Fluids Management Acquisition completed at the end of Q2 2010. The US Acquisitions coupled with the organic growth that the Company has been able to generate off of these acquired platforms, has established CES as a truly North American company with a wide footprint and a significant presence in the majority of the key basins of activity throughout North America.

CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share in North America. CES' exposure to the key resource plays and the growth in the number of horizontal wells being drilled bodes well for future growth. A larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times and costs and its unique products like Seal-AX™/PolarBond, ABS40™, PureStar™ and Liquidrill™/Tarbreak, combined with our concerted focus on providing superior service, positions CES well in this increasingly technically competitive environment. CES believes that its unique value propositions in the increasingly complex drilling environment makes it the premier independent drilling fluids provider in the North American market.

The EQUAL Transport division has experienced significant growth, particularly in south-eastern Saskatchewan where the business hauls drilling fluids and products to drilling locations and also provides other oilfield hauling services to our customers including the hauling of produced fluids. With increased activity throughout the WCSB, it is expected this business will continue to be economically attractive and may expand further as viable opportunities emerge.

The PureChem Services division manufactures and sells both drilling fluid chemicals and production chemicals. The construction of the PureChem facility in Carlyle, Saskatchewan was completed in February 2011 and operations have commenced. PureChem is a complimentary business to both CES' drilling fluids business and EQUAL's production hauling businesses in Canada. In the US, the Fluids Management division also produces and blends its own set of proprietary drilling fluid products which provides synergies and experience to PureChem going forward.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business. The Environmental Services division has focused on expanding its operational base in the WCSB and is pursuing opportunities in the oil sands and horizontal drilling markets. Clear has experienced an increase in activity which began in the fourth quarter of 2009 and has continued throughout 2010 and into 2011. At this time, Clear's activity levels are expected to remain healthy throughout 2011.

As drilling has become more complex, applied down-hole technologies are becoming increasingly important in driving success for operators. CES will continue to invest in research and development to be a leader in technology advancements in the drilling fluids market. In addition, CES continues to assess integrated business opportunities that will keep CES competitive and enhance profitability, while at the same time closely manage its dividend levels and capital expenditures in order to preserve its financial strength and liquidity position.

CORPORATE GOVERNANCE

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2010 Annual Report, CES' Annual Information Form dated March 17, 2011 in respect of the year ended December 31, 2010, and CES' Information Circular in respect to the June 30, 2011 Annual General and Special Meeting of shareholders each of which are available on CES' SEDAR profile at www.sedar.com.

ADDITIONAL INFORMATION

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

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Colin D. Boyer[1,2]

John M. Hooks[2]

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Thomas J. Simons

Rodney L. Carpenter

James (Jim) G. Sherman

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

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Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

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BANKERS
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SOLICITORS
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