Canadian Energy
SERVICES

Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2011

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Financial Position (unaudited)
(stated in thousands of dollars, except per share amounts)

	As at		
	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current assets			
Accounts receivable	**120,258**	100,733	35,336
Financial derivative asset (note 19)	**140**	25	-
Inventory (note 5)	**34,846**	31,303	10,001
Prepaid expenses	**5,854**	2,513	389
	161,098	134,574	45,726
Property and equipment (note 6)	**33,847**	30,553	14,734
Intangible assets (note 7)	**15,931**	17,083	7,169
Deferred income tax asset	**7,158**	10,212	1,949
Goodwill (note 7)	**94,170**	95,448	61,291
	312,204	287,870	130,869
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness (note 8)	**55,058**	44,172	8,762
Accounts payable and accrued liabilities	**55,129**	46,714	21,212
Financial derivative liability (note 19)	**-**	-	11
Earn-out payable	**-**	-	207
Deferred acquisition consideration (note 18)	**4,859**	4,990	2,098
Dividends payable (note 17)	**2,179**	1,813	983
Current portion of finance lease obligation (note 10)	**1,279**	1,184	89
Current portion of long-term debt (note 9)	**1,585**	1,584	1,106
	120,089	100,457	34,468
Finance lease obligation (note 10)	**1,888**	1,722	82
Long-term debt (note 9)	**3,352**	3,556	2,557
Deferred income tax liability	**3,901**	3,118	1,229
	129,230	108,853	38,336
Commitments (note 18)			
Shareholders' equity			
Common shares (note 14)	**196,133**	195,755	117,448
Subordinate convertible debenture	**-**	-	6,627
Contributed surplus (note 16)	**2,610**	1,900	1,983
Deficit	**(7,247)**	(13,255)	(33,525)
Accumulated other comprehensive loss	**(8,522)**	(5,383)	-
	182,974	179,017	92,533
	312,204	287,870	130,869

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

Canadian Energy Services & Technology Corp.
Condensed Consolidated Statements of Comprehensive Income (unaudited)
(stated in thousands of dollars, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
Revenue	**111,539**	49,038
Cost of sales (note 5 and 11)	**78,915**	34,315
Gross margin	**32,624**	14,723
General and administrative expenses (note 12)	**14,586**	6,481
Operating profit	**18,038**	8,242
Finance costs (note 13)	**657**	153
Income before taxes	**17,381**	8,089
Current income tax expense	**1,692**	9
Deferred income tax expense (recovery)	**3,874**	(10,388)
Net income	**11,815**	18,468
Other comprehensive loss:		
Unrealized foreign exchange loss on translation of foreign operations	**(3,139)**	(986)
Comprehensive income	**8,676**	17,482
Net income per share (note 14)		
Basic	**0.65**	1.38
Diluted	**0.64**	1.37

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

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Changes in Equity (unaudited)
(stated in thousands of dollars, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
Common shares		
Balance, beginning of period	**195,755**	117,448
Stock options exercised	**378**	1,492
Conversion of subordinate convertible debenture	**-**	6,627
Balance, end of period	**196,133**	125,567
Subordinate convertible debenture		
Balance, beginning of period	**-**	6,627
Conversion of subordinate convertible debenture	**-**	(6,627)
Balance, end of period	**-**	-
Contributed surplus (note 16)		
Balance, beginning of period	**1,900**	1,983
Stock options exercised	**(96)**	(350)
Stock-based compensation	**806**	107
Balance, end of period	**2,610**	1,740
Accumulated other comprehensive loss		
Balance, beginning of period	**(5,383)**	-
Foreign currency translation adjustment	**(3,139)**	(986)
Balance, end of period	**(8,522)**	(986)
Deficit		
Balance, beginning of period	**(13,255)**	(33,525)
Total net income for the period	**11,815**	18,468
Dividends declared (note 17)	**(5,807)**	(2,414)
Balance, end of period	**(7,247)**	(17,470)
Total shareholders' equity	**182,974**	108,851

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

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Cash Flows (unaudited)
(stated in thousands of dollars, except per share amounts)

	Three Months Ended March 31,	
	2011	2010
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the period	**11,815**	18,468
Adjustments for:		
Amortization	**2,196**	1,135
Stock-based compensation	**806**	107
Non-cash finance costs	**122**	1
Deferred income tax expense (recovery)	**3,874**	(10,388)
(Gain) loss on disposal of assets	**(48)**	5
Change in non-cash working capital (note 20)	**(18,509)**	(19,699)
	256	(10,371)
FINANCING ACTIVITIES:		
Repayment of long-term debt and capital leases	**(928)**	(352)
Issuance of long-term debt and lease proceeds	**-**	4,147
Issuance of shares, net of issuance costs	**282**	1,142
Increase (decrease) in bank indebtedness	**10,711**	12,965
Shareholder dividends	**(5,441)**	(2,589)
	4,624	15,313
INVESTING ACTIVITIES:		
Investment in property and equipment	**(5,325)**	(2,030)
Investment in intangible assets	**-**	(20)
Deferred acquisition consideration	**-**	(207)
Conversion transaction	**-**	(2,800)
Proceeds on disposal of fixed assets	**270**	75
	(5,055)	(4,982)
Effect of exchange rate on bank indebtedness	**175**	40
CHANGE IN CASH	**-**	**-**
Cash, beginning of period	-	-
Cash, end of period	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**797**	239
Taxes paid	**-**	-

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

1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES was formerly Canadian Energy Services & Technology L.P. (the "Partnership"). Effective January 1, 2010, the Partnership completed a Plan of Arrangement ("Arrangement") with Nevaro Capital Corporation ("Nevaro") which resulted in the Company converting from a limited partnership to corporation (the "Conversion"). The condensed consolidated financial statements of the Company as at and for the three months ended March 31, 2011, comprise the Company and its subsidiaries (together referred to as the "Company").

The Company specializes in the design and implementation of drilling fluid solutions for the North American oil and gas industry, and in particular for horizontal and directional resource play drilling. In Canada, it operates as Canadian Energy Services and Moose Mountain Mud. In the United States ("US"), it operates through its indirect wholly-owned subsidiary, AES Drilling Fluids, LLC ("AES"), and through AES' operating divisions, Champion Drilling Fluids and Fluids Management. In Canada, in addition to drilling fluids, the Company operates a transportation division, Equal Transport; an environmental services division, Clear Environmental Solutions; and has established a chemical blending and production chemical division, PureChem Services.

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.

2. Basis of Presentation

a) Statement of compliance

In 2010, the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook") was revised to incorporate International Financial Reporting Standards ("IFRS") and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), "Interim Financial Reporting" as issued by the International Accounting Standards Board and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011, which will be the Company's first consolidated annual financial statements prepared in accordance with IFRS. IFRS requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements. IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied, with a transition date of January 1, 2010. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Company, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010, is provided in note 4. The consolidated financial statements were authorized for issue by the Board of Directors on May 11, 2011.

b) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention except for the following items in the statement of financial position:

(i) derivative financial instruments are measured at fair value; and
(ii) financial instruments at fair value through profit or loss are measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Gains and losses on translation of monetary items are recognized in the statement of comprehensive income in finance costs, except for those foreign exchange gains or losses arising from a assets and liabilities of a foreign operation, which are recognized in other comprehensive income ("OCI") in the cumulative translation reserve.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in OCI.

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on an average cost basis, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

c) Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets for which the commencement date is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized within cost of sales in profit or loss.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment, including repairs and maintenance, are recognized in profit or loss as incurred.

Property and equipment are amortized using the straight-line method over their estimated useful lives at the following rates:

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

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate. The Company regularly reviews its property and equipment to assess for impairment.

d) Leased assets

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

e) Identifiable intangible assets
The Company's intangible assets include customer relationships, proprietary software, and patents with finite useful lives. Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized using the straight-line method through profit or loss over their estimated useful lives when the realization of economic benefits begins. The estimated useful lives are as follows:

Customer relationships	6-7 years
Proprietary software	3 years
Patents	10 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively, as required.

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

g) Impairment
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated by the Company to the CGUs that are expected to benefit from the synergies of the business combination. This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

h) Provisions
Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at

the end of the reporting period and are discounted to present value as applicable. The Company reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

i) Revenue recognition
The Company's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed into the mud system. For sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service and trucking charges is recognized based upon agreed daily, hourly, or job rates when the service is performed. Revenue is only recognized when collection is considered probable. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation
The Company uses the fair value method to account for stock options granted to employees, officers, and directors of the Company for grants under the Company's Option Plan and Share Rights Incentive Plan. CES has adopted a Share Rights Incentive Plan ("SRIP") for any new option issuances effective January 1, 2010. Compensation expense for options granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant and the expense is recognized over the tranche's vesting period by increasing contributed surplus, with a corresponding increase to general and administrative expenses, based on the number of awards expected to vest.

k) Finance costs
Finance costs are comprised of interest expense on borrowings, financial derivative gains and losses, and foreign currency gains and losses resulting from foreign currency transactions which are translated into the Company's functional currency.

l) Borrowing costs
Borrowing costs attributable to the acquisition, construction, or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized as finance costs in the statement of comprehensive income, using the effective interest method, in the period in which they are incurred.

m) Income taxes
Effective January 1, 2010, as a result of the Conversion, the Company converted from a limited partnership structure to a corporate structure. As a result, CES is subject to federal and provincial income taxes in Canada and to federal and state income taxes in the United States to the extent they are not sheltered by existing tax pools. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax expense and recoveries are recognized in respect of unused tax losses and tax credits, as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Future income tax inflows and outflows are subject to estimation in terms of both timing and the amount of future taxable earnings. Should these estimates change, the carrying value of the corresponding income tax assets or liabilities will change.

n) Derivative financial instruments
Derivative financial instruments are used by the Company to manage its exposure to market risk associated with currency fluctuations. The Company's policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments are classified as held for trading. These derivative instruments are recorded at fair values on the

consolidated statement of financial position as either an asset or liability with changes in fair value recognized in the consolidated statement of comprehensive income. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statement of comprehensive income at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties to settle the outstanding transactions with reference to the estimated forward prices as of the reporting date.

o) Financial instruments

i) Non-derivative financial assets:

The Company initially recognizes trade and other receivables and deposits on the date that they originate. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets and liabilities at fair value through profit or loss and loans and receivables.

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets and liabilities are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets and liabilities designated at fair value through profit or loss are measured at fair value and their changes therein are recognized in profit or loss. The only instruments held by the Company classified in this category are derivative financial instruments (note 3 (n)).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. The Company has the following loans and receivables: accounts receivable.

ii) Non-derivative financial liabilities:

All financial liabilities, including liabilities designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company has the following non-derivative financial liabilities: bank indebtedness; accounts payable and accrued liabilities; deferred acquisition consideration; dividends payable; and long-term debt. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

p) Net income per share

Basic net income per share is based on the income attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period. The diluted net income per share is based on the weighted average number of common shares outstanding during the period plus the effects of dilutive share equivalents. Diluted net income per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, and for the effects of all dilutive potential common shares.

q) Segment reporting
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets; head office expenses; interest expense; and income tax assets and liabilities and corresponding recoveries and expenses. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill.

r) Significant accounting judgments and estimates
The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes will differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made, relate to, but are not limited to, the following:

Accounts receivable
Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectable accounts.

Property and equipment
Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at the end of each reporting period or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable.

The assessment of any impairment of property and equipment, including intangible assets and goodwill, is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The estimated future cash flows are dependent upon a number of factors including, among others, the levels of drilling activity within the oil and natural gas industry. Actual drilling activity cannot be predicted with certainty and, as such, actual results could differ from these estimates.

Derivatives
The fair value of foreign currency contracts are based on forward curves as at the reporting date and will differ from what will eventually be realized. Changes in the fair value of the foreign currency contracts are recognized in profit or loss. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of stock options granted is measured using a Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, actual and expected life of the options, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading history excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the options is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of options that will forfeit and the rate is adjusted to reflect the actual number of options that actually vest.

Income taxes
Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax bases using the enacted or substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact earnings.

Commitments and contingencies
Management estimates the inputs used in determining the various commitments and contingencies accrued in the consolidated interim statement of financial position.

s) Accounting changes
A number of new standards, amendments to standards, and interpretations are not yet effective for the three months ended March 31, 2011, and have not been applied in preparing these consolidated financial statements. A summary of new standards that have not been adopted which may impact the Company is as follows:

Amendments to IFRS 7, Financial Instruments: Disclosures – Transfer of Assets ("IFRS 7"), were issued in October 2010. Those amendments increase the disclosure requirements for transactions involving transfers of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate that these amendments to IFRS 7 will have a significant effect on the Company's disclosures on financial assets.

IFRS 9, "Financial Instruments" ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. Explanation of Transition to IFRS
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.

a) Mandatory exceptions to retrospective application

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 mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below:

(i) Hedge accounting
Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were recorded as a non-hedging derivative financial instruments.

(ii) Estimates
Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

b) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The 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, the Company has not restated business combinations that took place prior to the Transition Date.

(ii) Stock-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, the Company has not restated stock compensation expense on options vested prior to the Transition Date.

(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.

c) Reconciliation of equity and comprehensive income as reported under Canadian GAAP and IFRS

In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's consolidated statements of financial position, comprehensive income, and cash flows is set out in the following tables and the notes that accompany the tables.

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

Reconciliation of financial position:

		As at								
		December 31, 2010			March 31, 2010			January 1, 2010		
	Note	Canadian GAAP	Effect of transition IFRSs	**IFRS**	Canadian GAAP	Effect of transition IFRSs	**IFRS**	Canadian GAAP	Effect of transition IFRSs	**IFRS**
ASSETS										
Current assets										
Accounts receivable		100,733	-	**100,733**	57,507	-	**57,507**	35,336	-	**35,336**
Financial derivative asset		25	-	**25**	-	-	**-**	-	-	**-**
Inventory		31,303	-	**31,303**	10,868	-	**10,868**	10,001	-	**10,001**
Prepaid expenses		2,513	-	**2,513**	453	-	**453**	389	-	**389**
		134,574		**134,574**	68,828		**68,828**	45,726		**45,726**
Property and equipment	**c, e**	30,320	233	**30,553**	15,242	313	**15,555**	14,564	170	**14,734**
Intangible assets		17,083	-	**17,083**	6,876	-	**6,876**	7,169	-	**7,169**
Deferred income tax asset		10,212	-	**10,212**	15,193	-	**15,193**	1,949	-	**1,949**
Goodwill		95,448	-	**95,448**	60,792	-	**60,792**	61,291	-	**61,291**
		287,637	233	**287,870**	166,931	313	**167,244**	130,699	170	**130,869**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities										
Bank indebtedness		44,172	-	**44,172**	21,727	-	**21,727**	8,762	-	**8,762**
Accounts payable and accrued liabilities		46,714	-	**46,714**	24,285	-	**24,285**	21,212	-	**21,212**
Financial derivative liability		-	-	**-**	5	-	**5**	11	-	**11**
Earn-out payable		-	-	**-**	-	-	**-**	207	-	**207**
Deferred acquisition consideration		4,990	-	**4,990**	2,038	-	**2,038**	2,098	-	**2,098**
Distributions payable		1,813	-	**1,813**	808	-	**808**	983	-	**983**
Current portion of capital lease obligation	**c**	1,072	112	**1,184**	724	234	**958**	-	89	**89**
Current portion of long-term debt		1,584	-	**1,584**	1,617	-	**1,617**	1,106	-	**1,106**
		100,345	112	**100,457**	51,204	234	**51,438**	34,379	89	**34,468**
Capital lease obligation	**c**	1,664	58	**1,722**	1,534	76	**1,610**	-	82	**82**
Long-term debt		3,556	-	**3,556**	4,008	-	**4,008**	2,557	-	**2,557**
Deferred income tax liability		3,118	-	**3,118**	1,336	-	**1,336**	1,229	-	**1,229**
Deferred tax credit	**d**	7,906	(7,906)	**-**	10,980	(10,980)	**-**	-	-	**-**
		116,589	(7,736)	**108,853**	69,062	(10,670)	**58,392**	38,165	171	**38,336**
SHAREHOLDERS' EQUITY										
Common shares		195,755	-	**195,755**	125,567	-	**125,567**	117,448	-	**117,448**
Subordinate convertible debt		-	-	**-**	-	-	**-**	6,627	-	**6,627**
Contributed surplus	**b**	2,120	(220)	**1,900**	1,900	(160)	**1,740**	2,122	(139)	**1,983**
Deficit	**f**	(21,444)	8,189	**(13,255)**	(28,612)	11,142	**(17,470)**	(33,663)	138	**(33,525)**
Accumulated other comprehensive loss		(5,383)	-	**(5,383)**	(986)	-	**(986)**	-	-	**-**
Total shareholders' equity		171,048	7,969	**179,017**	97,869	10,982	**108,851**	92,534	(1)	**92,533**
Total liabilities and equity		287,637	233	**287,870**	166,931	313	**167,244**	130,699	170	**130,869**

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

Reconciliation of comprehensive income:

	Year ended December 31, 2010			Three months ended March 31, 2010		
	Canadian GAAP	Effect of transition IFRSs	**IFRS**	Canadian GAAP	Effect of transition IFRSs	**IFRS**
Revenue	249,116	-	**249,116**	49,038	-	**49,038**
Cost of sales	180,707	3	**180,710**	34,313	2	**34,315**
Gross margin	68,409	(3)	**68,406**	14,725	(2)	**14,723**
General and administrative expenses	36,031	(81)	**35,950**	6,502	(21)	**6,481**
Operating profit	32,378	78	**32,456**	8,223	19	**8,242**
Finance costs	768	(66)	**702**	157	(4)	**153**
Income before taxes	31,610	144	**31,754**	8,066	23	**8,089**
Current income tax expense	315	-	**315**	9	-	**9**
Deferred income tax expense (recovery)	5,036	(7,906)	**(2,870)**	592	(10,980)	**(10,388)**
Net income	26,259	8,050	**34,309**	7,465	11,003	**18,468**
Other comprehensive income (loss):						
Unrealized gain on translation of foreign operations	(5,174)	-	**(5,174)**	(986)	-	**(986)**
Comprehensive income	21,085	-	**29,135**	6,479	-	**17,482**

Notes to the reconciliations

a) Presentation differences

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported income or total equity. Some line items are described differently under IFRS as compared to Canadian GAAP and certain line items have been added or removed in accordance with IAS 1, Presentation of Financial Statements. These line items are as follows (with Canadian GAAP descriptions in brackets):

- General and administrative expenses (Selling, general, and administrative expenses); and
- Finance costs (consists of ‘Financial derivative (gain)/loss’ and ‘Foreign exchange (gain)/loss’, and ‘Interest expense’).

Certain items of expense have been reclassified into other line items under IFRS at the Transition Date. Reclassifications have been recorded for the following line items:

- Stock-based compensation and Amortization have been proportionately allocated by the function of the expense to the accounts of ‘Cost of sales’ and ‘General and administrative expenses’;
- Loss on disposal of assets has been reclassified based on the function of the expense to ‘Cost of sales’; and
- Foreign exchange (gain)/loss, Financial derivative (gain)/loss, and Interest expense have been reclassified to ‘Finance Costs’.

b) 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 $139 at the Transition Date and decreased general and administration expenses by $21 for the three months ended March 31, 2010, and $81 for the year ended December 31, 2010.

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

c) Leases

Under Canadian GAAP, certain leases of vehicles and trucks were classified as operating leases. Under IFRS, the vehicles and trucks are classified as finance leases because the gains and losses from the fluctuation in the fair value of the residual accrue to the Company. The effect of this change in classification at the Transition Date is to increase property and equipment by $170 (March 31, 2010 – $309; December 31, 2010 – $167) net of the related accumulated depreciation of $55 (March 31, 2010 – $81; December 31, 2010 – $71) on the finance leases, and increase total finance lease obligations by $171 (March 31, 2010 – $310; December 31, 2010 – $170). Additional lease expense of $1 (March 31, 2010 – $2; December 31, 2010 – $3) on the operating leases under previous Canadian GAAP will be recorded.

d) Deferred tax credit

Under Canadian GAAP, a future income tax asset and deferred tax credit were recognized upon the Conversion. Under IFRS, a deferred tax asset is 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 $2,800 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 $10,980 and $7,906, respectively, for the three and twelve month periods ended March 31, 2010 and December 31, 2010, with a corresponding elimination of the deferred tax credit upon transition.

e) 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, property and equipment has increased by $4 and $66 for the three and twelve month periods ended March 31, 2010, and December 31, 2010, respectively, with a corresponding decrease in finance costs.

f) Summary of adjustments to retained earnings

The following is a summary of transition adjustments to the Company's deficit from Canadian GAAP to IFRS:

	Notes	As at December 31, 2010	As at March 31, 2010	As at January 1, 2010
Deficit as reported under Canadian GAAP		(21,444)	(28,612)	(33,663)
IFRS adjustments increase (decrease):				
Stock-based compensation	**b**	220	160	139
Leases	**c**	(3)	(2)	(1)
Deferred tax	**d**	7,906	10,980	-
Borrowing costs	**e**	66	4	-
		8,189	11,142	138
Deficit as reported under IFRS		(13,255)	(17,470)	(33,525)

g) Material adjustments to the consolidated statement of cash flows for 2010

Consistent with the Company's accounting policy choice under IAS 7, the Statement of Cash Flows has no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

5. Inventory

The cost of inventory expensed in cost of sales for the three months ended March 31, 2011 was $52,388 (2010 – $23,025).

6. Property and Equipment

Property and equipment are comprised of the following balances:

	As at March 31, 2011			As at December 31, 2010			As at January 1, 2010		
$000's	**Cost**	**Accumulated Amortization**	**Carrying Value**	Cost	Accumulated Amortization	Carrying Value	Cost	Accumulated Amortization	Carrying Value
Trucks and trailers	**8,061**	**(2,644)**	**5,417**	6,914	(2,271)	4,643	5,680	(1,242)	4,438
Buildings	**10,777**	**(747)**	**10,030**	9,726	(651)	9,075	4,117	(355)	3,762
Tanks	**6,158**	**(344)**	**5,814**	5,466	(271)	5,195	902	(99)	803
Vehicles	**7,161**	**(1,880)**	**5,281**	6,209	(1,890)	4,319	3,950	(1,397)	2,553
Field equipment	**4,502**	**(1,688)**	**2,814**	4,236	(1,452)	2,784	2,182	(865)	1,317
Computer equipment and software	**1,079**	**(672)**	**407**	1,070	(608)	462	1,177	(580)	597
Processing equipment	**1,972**	**(109)**	**1,863**	1,811	(74)	1,737	-	-	-
Land	**1,597**	**-**	**1,597**	1,616	-	1,616	989	-	989
Furniture and fixtures	**506**	**(234)**	**272**	503	(211)	292	301	(133)	168
Leasehold improvements	**574**	**(222)**	**352**	582	(152)	430	136	(29)	107
	42,387	**(8,540)**	**33,847**	38,133	(7,580)	30,553	19,434	(4,700)	14,734

Borrowing costs

For the three months ended March 31, 2011, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $40 (2010 – $4).

7. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

	As at March 31, 2011			As at December 31, 2010			As at January 1, 2010		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer relationships	**18,191**	**(3,754)**	**14,437**	18,599	(3,123)	15,476	8,118	(1,130)	6,988
Software	**762**	**(371)**	**391**	774	(326)	448	-	-	-
Patents	**277**	**(97)**	**180**	227	(64)	163	218	(37)	181
Other intangibles	**972**	**(49)**	**923**	1,048	(52)	996	-	-	-
	20,202	**(4,271)**	**15,931**	20,648	(3,565)	17,083	8,336	(1,167)	7,169

Transition Date impairment test

In accordance with IFRS 1, the Company was required to perform an impairment test of its intangible assets as of the Transition Date. The Company's impairment analysis as of January 1, 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. The recoverable amount of the cash-generating units was based on their value in use.

The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect the estimated weighted average cost of capital of the Company. This discount rate has been calculated using an estimated risk free rate of return adjusted for the Company's estimated equity market risk premium and the Company's estimated cost of debt. An estimated pre-tax discount rate of 13% was used as at the Transition Date (December 31, 2010 – 13%). The growth rates represent management's current assessment of future trends in the service industry and are based on both external sources and internal sources and historical data. The Company prepares cash flow forecasts derived from the most recent financial forecasts for the upcoming year and subsequent five year period based on estimated variable growth rates of 5% to 10% for the first five years and 5% for years thereafter.

Impairment testing for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the Company's CGU's which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	As at		
$000's	**March 31, 2011**	December 31, 2010	January 1, 2010
Drilling Fluids Division (Canada)	**41,966**	41,966	41,966
Drilling Fluids Division (US) (1)	**44,257**	45,535	11,378
Trucking Division	**-**	-	-
Environmental Services Division (Clear)	**7,947**	7,947	7,947
	94,170	95,448	61,291

(1) Amounts denominated in foreign currencies have been translated at the respective period end exchange rates

8. Bank Indebtedness

On March 22, 2011, the Company entered into the New Credit Agreement with a commercial bank providing for the New Senior Credit Facility (the "Facility"), permitting it to borrow up to $80,000, subject to the value of certain accounts receivable and inventory.

The Facility is secured by, (a) in respect of the Company, a floating charge 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.

As of March, 31, 2011, based on eligible accounts receivable and inventory balances, the maximum available draw on the Facility was $80,000 (December 31, 2010 - $72,093). Amounts drawn on the facility incur interest at approximately the bank's prime rate plus 1.25%.

9. Long-Term Debt

The Company has long-term debt as follows:

	As at		
$000's	**March 31, 2011**	December 31, 2010	January 1, 2010
Vehicle financing loans	**1,634**	1,633	1,464
Committed loan facilities	**3,303**	3,507	2,199
	4,937	5,140	3,663
Less current portion of long-term debt	**(1,585)**	(1,584)	(1,106)
Long-term debt	**3,352**	3,556	2,557

Details of the Company's outstanding committed loan facilities as of March 31, 2011, are as follows:

Facility	Outstanding	Interest Rate	Payments	Term
1	1,390	Prime + 1.40%	10	April 2013 (1)
2	413	Prime + 1.40%	17	April 2013
3	1,500	Prime + 1.40%	42	March 2014
	3,303		**69**	

(1) The bank reserves the right to extend the term of the loan by two additional five year periods at its discretion.

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 8.8%, with a weighted average rate of 6.2%, and have termination dates ranging from May 2011 to December 2014.

For the three months ended March 31, 2011, the Company paid $106 (2010 – $48) in interest expense related to its long-term debt and lease balances.

Scheduled principal payments at March 31, 2011, are as follows:

$000's	
2011 - 9 months	**1,202**
2012	**1,515**
2013	**2,090**
2014	**130**
2015	**-**
Total	**4,937**

10. Finance Leases

The Company leases equipment and vehicles under a number of finance lease agreements for which the leased vehicles secure the lease obligations. The Company's equipment 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%. The Company's vehicle leases are for terms ranging from June 2011 through February 2014 with interest rates of up to 8.9% and a weighted average interest rate of approximately 6.3%. Assets under finance leases at March 31, 2011 totaled $4,446 (December 31, 2010 – $3,647; January 1, 2010 – $225) with accumulated amortization of $972 (December 31, 2010 – $824; January 1, 2010 – $55). Amortization expense relating to assets under finance leases for the three months ended March 31, 2011 totaled $157 (2010 – $81).

11. Cost of Sales

Included in cost of sales for the three months ended March 31, 2011 is amortization charged on property and equipment of $1,322 (2010 – $737) and employee compensation of $7,871 (2010 – $4,030).

12. General and Administrative Expenses

Included in general and administrative expense for the three months ended March 31, 2011 is amortization charged on property and equipment of $874 (2010 – $398), stock-based compensation of $806 (2010 – $107), and employee compensation of $8,126 (2010 – $3,990).

13. Finance Costs

The Company recognized the following finance income and expenses in profit or loss:

	Three months ended March 31,	
$000's	**2011**	2010
Foreign exchange loss (gain)	**40**	(58)
Financial derivative (gain) loss	**(113)**	18
Interest on long-term debt	**770**	197
Less: capitalized interest	**(40)**	(4)
Finance costs	**657**	153

14. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding

A summary of the changes to shareholders' equity for the period is presented below:

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
***Common Shares** (\$000's except shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of period	**18,131,829**	**195,755**	12,417,573	117,448
Equity issue, net of share issue costs and tax	**-**	**-**	2,905,000	43,066
Consideration for acquired business	**-**	**-**	1,289,370	21,468
Issued on conversion of Debenture	**-**	**-**	791,776	6,627
Issued pursuant to Option Plan	**28,166**	**282**	598,483	5,353
Contributed surplus related to Option Plan exercise	**-**	**96**	-	1,793
Issued pursuant to Distribution Rights Plan	**-**	**-**	129,627	-
Balance, end of period	**18,159,995**	**196,133**	18,131,829	195,755

c) Net income per share

In calculating the basic and diluted net income per share for the three months ended March 31, 2011 and 2010, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended March 31,	
\$000's, except share and per share amounts	**2011**	2010
Net income	**11,815**	18,468
Weighted average number of shares outstanding:		
Basic shares outstanding	**18,141,914**	13,367,833
Effect of dilutive securities	**461,336**	151,188
Diluted shares outstanding	**18,603,250**	13,519,021
Net income per share - basic	**\$0.65**	\$1.38
Net income per share - diluted	**\$0.64**	\$1.37

15. Stock-Based Compensation

As at March 31, 2011, a total of 1,816,000 common shares were reserved for issuance under the Company's Option Plan and Share Rights Incentive Plan of which 597,316 common shares remained available for grant.

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

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

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of period	**76,350**	**\$7.42**	682,500	\$8.75
Granted during the period	**-**	**-**	-	-
Exercised during the period	**(14,500)**	**7.48**	(598,483)	8.94
Forfeited during the period	**-**	**-**	(7,667)	7.26
Balance, end of period	**61,850**	**\$7.40**	76,350	\$7.42
Exercisable options, end of period	**7,350**	**\$8.70**	9,433	\$9.27

b) Share Rights Incentive Plan ("SRIP")

CES' SRIP provides incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights granted generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the grant. Under the SRIP, employees may elect to exercise the Share Rights at an adjusted exercise price in which the option exercise price will be adjusted downwards by the cumulative dividends paid by the Company. A summary of changes to the Share Rights is presented below:

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of period	**1,170,500**	**$16.94**	-	$ -
Granted during the period	**-**	**-**	1,226,000	16.81
Exercised during the period	**(13,666)**	**12.73**	-	-
Forfeited during the period	**-**	**-**	(55,500)	14.15
Balance, end of period	**1,156,834**	**$16.99**	1,170,500	$16.94
Exercisable Share Rights, end of period	**4,000**	**$12.73**	-	$ -

The fair value of the Share Rights granted, as of the date of grant, during the three months ended March 31, 2011 was $nil (2010 – $181).

For the three months ended March 31, 2011, stock compensation expense of $806 (2010 – $107) was recorded relating to the Company's Option and Share Rights stock-based compensation plans. The following table summarizes information about the outstanding grants under the Company's SRIP and Option Plan as at March 31, 2011:

	Options & Share Rights Outstanding			Options & Share Rights Exercisable	
Range of exercise prices	Options and Share Rights	Weighted average exercise price	Weighted average term remaining in years	Options and Share Rights	Weighted average exercise price
$5.53 - $8.00	39,350	$6.19	2.91	3,017	$6.80
$8.01 - $11.31	22,500	9.52	2.59	4,333	10.03
$11.32 - $14.54	417,334	14.37	4.02	4,000	12.73
$14.55 - $18.50	739,500	18.46	4.33	-	-
	1,218,684	$16.50	4.15	11,350	$10.12

16. Contributed Surplus

The following table reconciles the Company's contributed surplus:

$000's	**Three Months Ended March 31, 2011**	Year Ended December 31, 2010
Contributed surplus, beginning of period	**1,900**	1,983
Stock-based compensation	**806**	1,710
Exercise of share options	**(96)**	(1,793)
Contributed surplus, end of period	**2,610**	1,900

17. Dividends

The Company has declared dividends to holders of common shares for the three months ended March 31, 2011, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	0.10	**1,814**
February	Feb 28	Mar 15	0.10	**1,814**
March	Mar 31	Apr 15	0.12	**2,179**
Total dividends declared during the period			0.32	**5,807**

Subsequent to March 31, 2011, the Company declared dividends to holders of common shares in the amount of $0.12 per common share payable on May 13, 2011 for shareholders of recorded on April 30, 2011.

18. Commitments and Deferred Acquisition Consideration

The Company has commitments with payments due as follows:

$000's	9 months - 2011	2012	2013	2014	2015	Total
Office and facility rent	859	1,019	599	336	336	**3,149**

Payments denominated in foreign currencies have been translated at the respective March 31, 2011 exchange rate

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

On June 30, 2010, the Company closed its acquisition of selected drilling fluids business assets of Fluids Management II, Ltd., Brookshire Investment Trust, and Stikley Enterprises, Inc. (collectively "Fluids Management"), a privately-held drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the United States. In conjunction with the Fluids Management acquisition, the Company has accrued $4,859 (US$5,000) in additional deferred acquisition consideration payable in cash upon the Fluids Management division achieving an EBITDA target of US$9,500 for the twelve month period post close.

19. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at March 31, 2011 with that as at December 31, 2010.

b) Credit risk

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

	As at		
$000's	**March 31, 2011**	December 31, 2010	January 1, 2010
Past due 61-90 days	**2,333**	8,400	2,516
Past due 91-120 days	**683**	4,200	4
Past 120 days	**2,068**	663	224
Total past due	**5,084**	13,263	2,744

The Company reduces an account receivable to its estimated recoverable amount. At March 31, 2011, the Company had recorded a provision of $162 (December 31, 2010 – $162) relating to accounts receivable which may not be collectible.

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of March 31, 2011, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $68 lower/higher for the respective three months ended March 31, 2011 (2010 – $22).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the translation of its foreign operations. The Company uses the U.S. dollar as its functional currency for the operations of AES Drillings Fluids, LLC. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the three months ended March 31, 2011, a 1% increase/decrease in the Canadian dollar vis-à-vis the U.S. dollar is estimated to decrease/increase net income of the Company by approximately $93 (2010 – increase/decrease of $1).

At March 31, 2011, the Company had entered into the following foreign exchange U.S. dollar forward purchase contracts to manage its exposure to upcoming U.S. dollar denominated purchases pursuant to its Canadian operations:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
April 2011	US$152	Deliverable Forward	Physical Purchase	$0.9768
May 2011	US$379	Deliverable Forward	Physical Purchase	$0.9771
Total	US$531			$0.9770

At March 31, 2011, the Company had entered into the following foreign exchange U.S. dollar forward sale contracts to manage its exposure to upcoming U.S. 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
April 2011	US$450	Deliverable Forward	Physical Sale	$1.0037
May 2011	US$450	Deliverable Forward	Physical Sale	$1.0045
June 2011	US$450	Deliverable Forward	Physical Sale	$1.0051
July 2011	US$450	Deliverable Forward	Physical Sale	$1.0059
August 2011	US$450	Deliverable Forward	Physical Sale	$1.0067
September 2011	US$450	Deliverable Forward	Physical Sale	$1.0075
October 2011	US$450	Deliverable Forward	Physical Sale	$1.0082
November 2011	US$450	Deliverable Forward	Physical Sale	$1.0092
December 2011	US$450	Deliverable Forward	Physical Sale	$1.0034
January 2012	US$465	Deliverable Forward	Physical Sale	$1.0024
February 2012	US$450	Deliverable Forward	Physical Sale	$0.9895
March 2012	US$450	Deliverable Forward	Physical Sale	$0.9903
Total	US$5,415			$1.0030

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated statement of financial position. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their relative short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Company has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the consolidated statement of financial position as assets or liabilities with changes in their fair value recorded in net income for the period.

For the three months ended March 31, 2011, the Company recorded a realized loss of $2 (2010 – $15) relating to all of its foreign currency derivative contracts. For the three months ended March 31, 2011, the Company recorded an unrealized gain of $115 (2010 – unrealized loss of $3) relating to its foreign currency derivative contracts. The combined fair value of these outstanding risk management assets at March 31, 2011, was $140 (December 31, 2010 – $25). At March 31, 2011, a 1% increase / decrease in the Canadian dollar vis-à-vis the US dollar is estimated to increase / decrease in net income of the Company by $47 (2010 – decrease/increase by $2) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall drilling activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various chemicals and oil-based products and is directly exposed to changes in the prices of these items. As of March 31, 2011, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by maintaining a revolving demand loan facility and through management of its operational cash flows. The following table details the remaining contractual maturities of the Company's financial liabilities as of March 31, 2011:

	Payments Due By Period (1)					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Bank indebtedness (3)	55,058	-	-	-	-	**55,058**
Accounts payable and accrued liabilities	55,129	-	-	-	-	**55,129**
Deferred acquisition consideration	-	4,859	-	-	-	**4,859**
Dividends payable (2)	2,179	-	-	-	-	**2,179**
Long-term debt at fixed interest rates (3)	195	573	530	336	-	**1,634**
Long-term debt at floating interest rates (3)	204	613	817	1,669	-	**3,303**
Finance lease obligations (3)	320	959	1,541	347	-	**3,167**
Office operating leases	215	643	1,019	1,272	-	**3,149**
Total	113,300	7,647	3,907	3,624	-	**128,478**

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

(2) Dividends declared as of March 31, 2011

(3) Bank indebtedness, long-term debt, and finance lease obligations reflect principal payments and excludes any associated interest portion

20. Supplemental Information

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

	Three Months Ended	
$000's	**2011**	2010
Decrease (increase) in current assets		
Accounts receivable	**(20,658)**	(22,415)
Inventory	**(4,033)**	(1,063)
Prepaid expenses	**(3,420)**	(64)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**8,906**	3,145
	(19,205)	(20,397)
Relating to:		
Operating activities	**(18,509)**	(19,699)
Investing activities	**(696)**	(698)

21. Segmented Information

The Company has three reportable operating segments as determined by management, which are the Drilling Fluids segment, the Trucking segment, and the Environmental Services segment. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the Western Canadian Sedimentary Basin and in the United States through its subsidiary, AES Drilling Fluids, LLC. The Trucking segment is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment is comprised of the Company's environmental division, Clear Environmental Services which provides environmental and drilling fluids waste disposal services mostly to oil and gas producers. Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended March 31, 2011				
$000's	Drilling Fluids [1]	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	100,259	5,843	5,597	(160)	**111,539**
Gross margin	28,871	1,751	2,002	-	**32,624**
Amortization	1,516	498	182	-	**2,196**
Interest expense	663	54	13	-	**730**
Income before taxes	15,125	1,343	913	-	**17,381**
Total assets	282,317	14,304	15,583	-	**312,204**
Capital expenditures	3,850	779	-	-	**4,629**

	Three Months Ended March 31, 2010				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	41,251	4,041	4,012	(266)	49,038
Gross margin	12,142	1,139	1,442	-	14,723
Amortization	560	393	182	-	1,135
Interest expense	153	32	8	-	193
Income before taxes	6,711	808	570	-	8,089
Total assets	139,648	13,471	14,125	-	167,244
Capital expenditures	869	460	3	-	1,332

[1] Results from PureChem operations for the three months ended March 31, 2011, have been included in the Drilling Fluids segment.

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

	Revenue	
	Three Months Ended March 31,	
$000's	**2011**	2010
Canada	**56,188**	41,515
United States	**55,351**	7,523
Total	**111,539**	49,038

	Long-Term Assets [1]	
$000's	**March 31, 2011**	December 31, 2010
Canada	**72,375**	70,575
United States	**71,573**	72,509
Total	**143,948**	143,084

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

22. Economic Dependence

For the three months ended March 31, 2011, one customer accounted for 14% (2010 – no customer accounted for more than 10%) of the Company's total revenue.

Canadian Energy Services & Technology Corp.

Information

BOARD OF DIRECTORS

Kyle D. Kitagawa[1]
Chairman

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

James (Jim) G. Sherman

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

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS

Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS

HSBC Bank Canada, Calgary, AB

SOLICITORS

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

REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, AB and Toronto, ON

www.canadianenergyservices.com

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: CEU

CORPORATE OFFICE

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

DIVISIONS

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

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

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

US OPERATIONS

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

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

Fluids Management
11767 Katy Freeway, Suite 230
Houston, TX 77079
Phone: 281-556-5628
Fax: 281-589-7150