Canadian Energy

SERVICES

Consolidated Financial Statements

For the Three Months Ended March 31, 2010

Consolidated Balance Sheets (unaudited)

(stated in thousands of dollars except per share amounts)

	As at	
	March 31, 2010	December 31, 2009
ASSETS		
Current assets		
Accounts receivable	**57,507**	35,336
Inventory (note 3)	**10,868**	10,001
Prepaid expenses	**453**	389
	68,828	45,726
Property and equipment (note 4)	**15,242**	14,564
Intangible assets	**6,876**	7,169
Future income tax asset (note 8)	**15,193**	1,949
Goodwill	**60,792**	61,291
	166,931	130,699
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 5)	**21,727**	8,762
Accounts payable and accrued liabilities	**24,285**	21,212
Financial derivative liability (note 14)	**5**	11
Earn-out payable (note 12)	**-**	207
Deferred acquisition consideration (note 12)	**2,038**	2,098
Dividends payable	**808**	983
Current portion of capital lease obligation (note 7)	**724**	-
Current portion of long-term debt (note 6)	**1,617**	1,106
	51,204	34,379
Long-term debt (note 6)	**4,008**	2,557
Capital lease obligation (note 7)	**1,534**	-
Future income tax liability (note 8)	**1,336**	1,229
Deferred tax credit (note 8)	**10,980**	-
	69,062	38,165
Commitments (note 12)		
Shareholders' equity		
Common shares (note 9)	**125,567**	117,448
Subordinate convertible debenture (note 9)	**-**	6,627
Contributed surplus (note 11)	**1,900**	2,122
Deficit	**(28,612)**	(33,663)
Accumulated other comprehensive loss	**(986)**	-
	97,869	92,534
	166,931	130,699

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

Consolidated Statements of Operations and Deficit and Comprehensive Loss and Accumulated Other Comprehensive Loss (unaudited)

(stated in thousands of dollars except per share amounts)

	Three Months Ended March 31, **2010**	2009
Revenue	**49,038**	30,298
Cost of sales (note 3)	**33,571**	22,253
Gross margin	**15,467**	8,045
Expenses		
Selling, general, and administrative expenses	**5,976**	4,425
Amortization	**1,135**	877
Stock-based compensation (note 10)	**128**	396
Interest expense	**197**	143
Foreign exchange gain	**(58)**	(69)
Financial derivative loss (note 13)	**18**	-
Loss on disposal of assets	**5**	21
	7,401	5,793
Income before taxes	**8,066**	2,252
Current income tax expense	**9**	-
Future income tax expense	**592**	98
Net income	**7,465**	2,154
Deficit, beginning of period	**(33,663)**	(30,419)
Dividends declared	**(2,414)**	(2,642)
Deficit, end of period	**(28,612)**	(30,907)
Net income per share (note 9)		
Basic	**0.56**	0.19
Diluted	**0.55**	0.19
Net income	**7,465**	2,154
Other comprehensive loss:		
Unrealized loss on translation of self-sustaining foreign operations	**(777)**	-
Comprehensive income	**6,688**	2,154
Accumulated other comprehensive loss, beginning of period	**-**	-
Adjustment for change in foreign currency translation method (note 2)	**(209)**	-
Other comprehensive loss	**(777)**	**-**
Accumulated other comprehensive loss, end of period	**(986)**	-

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

Consolidated Statements of Cash Flow (unaudited)

(stated in thousands of dollars except per share amounts)

	Three Months Ended March 31,	
	2010	2009
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the period	**7,465**	2,154
Items not involving cash:		
Amortization	**1,135**	877
Stock-based compensation	**128**	396
Future income tax expense	**592**	98
Loss on disposal of assets	**5**	21
Unrealized foreign exchange gain	**(2)**	(81)
Unrealized financial derivative loss	**3**	-
Change in non-cash operating working capital (note 14)	**(19,702)**	7,448
	(10,376)	10,913
FINANCING ACTIVITIES:		
Repayment of long-term debt and capital leases	**(352)**	(477)
Issuance of long-term debt and lease proceeds	**4,147**	-
Issuance of shares, net of issuance costs	**1,142**	-
Increase (decrease) in bank indebtedness	**12,965**	(7,117)
Shareholder dividends	**(2,589)**	(2,646)
	15,313	(10,240)
INVESTING ACTIVITIES:		
Investment in property and equipment	**(1,327)**	(867)
Investment in intangible assets	**(20)**	(32)
Clear earn-out	**(207)**	-
Conversion transaction (note 8)	**(2,800)**	-
Proceeds on disposal of fixed assets	**75**	185
Change in non-cash investing working capital (note 14)	**(698)**	29
	(4,977)	(685)
Effect of exchange rate on cash balances	**40**	12
CHANGE IN CASH	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**239**	184
Taxes paid	**-**	-

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

1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") was incorporated under the Canada Business Corporations Act by registration of Articles of Incorporation on November 13, 1986. CES was formerly Canadian Energy Services & Technology L.P. (the "Partnership"), a limited partnership formed on January 13, 2006, pursuant to the Limited Partnerships Act (Ontario). Effective January 1, 2010, the Partnership and Canadian Energy Services Inc., the general partner of the Partnership (the "General Partner") completed a Plan of Arrangement ("Arrangement") with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation (the "Conversion").

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

2. Basis of Presentation and Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared by management of the Company in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting principles and methods of computation as the Company's audited consolidated financial statements for the year ended December 31, 2009, except as noted below. These unaudited interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2009.

Leases

The Company's leases are classified as either capital or operating. Leases which effectively transfer substantially all of the risks and rewards of ownership to the Company are classified as capital leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured as the present value of the future minimum lease payments. The asset is amortized in accordance with the Company's depreciation policy. The obligations recorded under capital leases are reduced by the lease payments made. All other leases are accounted for as operating leases and payments are expensed over the term of the lease.

Foreign currency translation

Effective January 1, 2010, the Company changed the classification of its U.S. foreign subsidiary operations, AES Drilling Fluids, LLC ("AES") from integrated to self-sustaining and as a result, the operations of AES included in the consolidated financial statements subsequent to that date have been translated using the current rate method as opposed to the previously used temporal method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rate in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation of the U.S. operations, translation gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the consolidated balance sheet as a separate component of Accumulated Other Comprehensive Income ("AOCI"). Accumulated other comprehensive income (loss) forms part of Shareholders' Equity. This change in translation method has been applied prospectively effective January 1, 2010 and resulted in a foreign exchange loss of $209 being deferred and recorded as AOCI as at January 1, 2010.

Stock-based compensation

The Company uses the fair value method to account for stock options granted to employees, officers, directors, and certain service providers of the Company for grants under the Company's Option Plan and Share Rights Incentive Plan. CES has adopted a Share Rights Incentive Plan for any new issuances effective January 1, 2010. All prior grants under the Unit Option Plan will continue based on the terms and conditions as of the original grant. Under the fair value method, the fair value of the share options is estimated at the grant date using a Black-Scholes option pricing model, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus. Any consideration received upon the exercise of the stock-based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in Shareholders' Equity. For any new grants under the Share Rights Incentive Plan, the Company has incorporated an estimated forfeiture rate for Share Rights that will not vest in the computation of the fair value of the Share Rights on the date of the grant.

3. Inventory

The cost of inventory expensed in cost of sales for the three months ended March 31, 2010 was $23,025 (2009 - $14,298).

4. Property and Equipment

Property and equipment are comprised of the following balances:

	As at March 31, 2010			As at December 31, 2009		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Trucks	**5,769**	**(1,508)**	**4,261**	5,680	(1,242)	4,438
Vehicles	**4,153**	**(1,497)**	**2,656**	3,725	(1,342)	2,383
Buildings	**4,624**	**(413)**	**4,211**	4,117	(355)	3,762
Field equipment	**2,294**	**(975)**	**1,319**	2,182	(865)	1,317
Land	**987**	**-**	**987**	989	-	989
Computer equipment and software	**1,286**	**(633)**	**653**	1,177	(580)	597
Tanks	**1,003**	**(114)**	**889**	902	(99)	803
Furniture and fixtures	**319**	**(148)**	**171**	301	(133)	168
Leasehold improvements	**134**	**(39)**	**95**	136	(29)	107
	20,569	**(5,327)**	**15,242**	19,209	(4,645)	14,564

5. Bank Indebtedness

The Partnership has a revolving demand loan with a commercial bank permitting it to borrow up to $30,000, subject to the value of certain accounts receivable and inventory. As of March 31, 2010, based on eligible accounts receivable and inventory balances, the maximum available draw on the facility was $30,000 (December 31, 2009- $20,901). Amounts drawn on the facility incur interest at the bank's prime rate plus 1.25%.

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

6. Long-Term Debt

The Company has long-term debt as follows:

$000's	**March 31, 2010**	December 31, 2009
Vehicle financing loans	**1,505**	1,464
Committed loan facilities	**4,120**	2,199
	5,625	3,663
Less current portion of long-term debt	**(1,617)**	(1,106)
Long-term debt	**4,008**	2,557

On March 31, 2010, the Company completed a draw of $2,000 on its third non-revolving loan facility. Details of the Company's outstanding loan facilities as of March 31, 2010 are as follows:

Facility	Balance Outstanding $000's	Interest Rate	Monthly Payments $000's	Term
1	1,507	Prime + 1.40%	10	April 2013 (1)
2	613	Prime + 1.40%	17	April 2013
3	2,000	Prime + 1.40%	42	March 2014
	4,120		**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 13%, with a weighted average rate of 6.36%, and have termination dates ranging from August 2010 to March 2013.

For the three months ended March 31, 2010, the Company paid $48 (2009 - $56) in interest expense related to its long-term debt balances.

Scheduled principal payments at March 31, 2010 are as follows:

$000's	
2010 - 9 Months	**1,224**
2011	**1,403**
2012	**1,108**
2013	**1,765**
2014	**125**
2015	**-**
Total	**5,625**

7. Leases

On March 31, 2010, the Company completed a sale and lease back transaction on specified assets for proceeds of $2,147. The Company recognized a gain of $174 on the sale and lease back transaction which has been deferred and will be recognized over the remaining life of the assets. 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 $61. Assets under capital leases at March 31, 2010 totaled $2,342 with accumulated amortization of $71.

8. Income Taxes

As outlined in note 1, effective January 1, 2010, as a result of the Arrangement with Nevaro, 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 the United States to the extent that they are not sheltered by existing tax pools.

Under the Arrangement, Nevaro transferred certain assets and all of its liabilities to a new corporation ("New Nevaro"), leaving certain tax attributes related to Nevaro's previous operations. Nevaro then acquired all of the Class A Units of the Partnership and all of the shares of Canadian Energy Services Inc., and, in exchange, the previous holders of Class A Units of the Partnership received one common share of Nevaro. Nevaro then changed its name to "Canadian Energy Services & Technology Corp." which became the parent entity of CES on a go forward basis with no changes to the underlying business operations of CES. Under the Arrangement, New Nevaro received consideration from the Company in the aggregate amount of $2,800. CES incurred $586 in costs related to the Arrangement which were expensed during the year ended December 31, 2009.

As a result of the Arrangement, a future income tax asset of $15,482 and a deferred tax credit in the amount of $12,682 were recognized with the difference of $2,800 representing the consideration paid to New Nevaro under the arrangement. The deferred tax credit will be amortized in proportion to the corresponding future income tax asset as the tax pools are utilized. For the three months ended March 31, 2010, $2,081 of this future income tax asset and $1,704 of this deferred tax credit have been amortized relating to the estimated usage.

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

	As at	
$000's	**March 31, 2010**	December 31, 2009
Property and equipment	**409**	542
Goodwill and other intangible assets	**1,639**	1,465
Financing costs and other tax credits	**(655)**	(588)
Non-capital losses	**(15,301)**	(2,192)
Capital losses	**(5,374)**	-
Other	**51**	53
Valuation allowance, net	**5,374**	-
Total, net future income tax (asset) liability	**(13,857)**	(720)
Future income tax asset	**15,193**	1,949
Future income tax liability	**1,336**	1,229

Details of the Company's non-capital losses, which if not utilized will expire as follows:

	As at	
$000's	**March 31, 2010**	December 31, 2009
2013	**3,212**	-
2014	**5,000**	-
2015	**2,826**	-
2026 and beyond	**52,147**	5,870
Total non-capital tax loss pools	**63,185**	5,870

Non-capital tax losses denominated in foreign currencies have been translated at the respective exchange rate.

In addition, the Company has other tax credits totalling $2,856 and capital loss tax pools totalling $18,823. An asset has been recognized for all of the Company's tax pools and tax credits except for the Company's capital tax loss pools due to the uncertainty of realization.

9. Shareholders' Equity

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, 2010		Year Ended December 31, 2009	
Common Shares *($000's except shares)*	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of period	**12,417,573**	**117,448**	9,018,315	84,352
Equity issue, net of share issue costs and tax	**-**	**-**	1,000,000	9,550
Consideration for acquired business	**-**	**-**	223,054	1,793
Issued on conversion of Debenture	**791,776**	**6,627**	-	-
Issued pursuant to Unit Bonus Plan	**-**	**-**	20,500	224
Issued pursuant to Option Plan	**130,833**	**1,142**	45,500	353
Contributed surplus related to unit option exercise	**-**	**350**	-	129
Issued pursuant to Distribution Rights Plan	**129,627**	**-**	8,718	-
Units repurchased	**-**	**-**	(50,000)	(467)
Conversion of Subordinated Class B Units	**-**	**-**	2,151,486	21,514
Balance, end of period	**13,469,809**	**125,567**	12,417,573	117,448

The subordinate convertible debenture (the "Debenture") issued in conjunction with the acquisition of Champion Drilling Fluids Inc. for $6,627 was converted into 791,776 common shares of CES, at a fixed conversion price of $8.37 per common share on January 4, 2010 after completion of the Arrangement. The common shares issued are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard conditions including a change of control of CES, on each of the first, second, and third anniversaries after closing of the acquisition.

c) Net income per share
In calculating the basic and diluted net income per share for the three months ended March 31, 2010 and 2009, 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	**2010**	2009
Net income	**7,465**	2,154
Weighted average number of shares outstanding:		
Basic shares outstanding	**13,367,833**	11,124,245
Effect of dilutive securities	**151,188**	20,500
Diluted shares outstanding	**13,519,021**	11,144,745
Net income per share - basic	**$0.56**	$0.19
Net income per share - diluted	**$0.55**	$0.19

10. Stock-Based Compensation
As at March 31, 2010, a total of 1,346,981 common shares were reserved for issuance under the Company's Option Plan and Share Rights Incentive Plan of which 609,667 remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan
In conjunction with the Arrangement, CES has adopted a Share Rights Incentive Plan for any new issuances effective January 1, 2010. All prior grants under the Unit Option Plan will continue based on the terms and conditions as of the original grant. A summary of changes to the Option Plan is presented below:

	Three Months Ended March 31, 2010		Year Ended December 31, 2009	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of period	**682,500**	**$8.75**	725,500	$9.08
Granted during the period	**-**	**-**	85,000	6.38
Exercised during the period	**(130,833)**	**8.73**	(45,500)	7.80
Forfeited during the period	**(1,000)**	**10.03**	(82,500)	9.70
Balance, end of period	**550,667**	**$8.76**	682,500	$8.75
Exercisable options, end of period	**427,834**	**$8.99**	515,584	$9.14

b) Share Rights Incentive Plan ("SRIP")
CES' SRIP provides incentives to the employees, officers, and directors of the Company or its subsidiaries, and certain service providers 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:

(stated in thousands of dollars except per share amounts)

	Three Months Ended March 31, 2010	
	Share Rights	Average Exercise Price
Balance, beginning of period	**-**	**$ -**
Granted during the period	**65,000**	**12.73**
Forfeited during the period	**(6,000)**	**12.73**
Balance, end of period	**59,000**	**$12.73**
Exercisable Share Rights, end of period	**-**	**$ -**

The fair value of the Share Rights granted during the three months ended March 31, 2010 was $181. The compensation costs for Share Rights granted during the current period were calculated using the Black-Scholes option pricing model using the following assumption.

	Three Months Ended March 31, 2010
Risk-free interest rate	**1.86%**
Expected life of Share Rights	**3.5 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**9.00%**
Dividend yield	**5.66%**
Expected volatility	**55.63%**
Weighted average fair value per Share Right	**$3.07**

Subsequent to March 31, 2010, a grant of 421,500 Share Rights was approved by the Company's Board of Directors to selected employees.

For the three months ended March 31, 2010, stock compensation expense of $128 (2009 - $329) 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 Plans at March 31, 2010:

	Options & Share Rights Outstanding			Options & Share Rights Exercisable	
Range of exercise prices	Options	Weighted average exercise price	Weighted average term remaining in years	Options	Weighted average exercise price
$5.53 - $8.00	210,167	$6.62	2.43	144,250	$6.79
$8.01 - $11.31	340,500	10.08	1.74	283,584	10.10
$11.32 - $12.73	59,000	12.73	4.79	-	-
	609,667	$9.14	2.27	427,834	$8.99

c) Distribution Rights Plan

The Distribution Rights Plan was terminated effective January 1, 2010 in conjunction with the Arrangement. Effective January 15, 2010, all outstanding Distribution Rights were redeemed for common shares of the Company.

Common Shares Accumulated From Distribution Rights	**Three Months Ended March 31, 2010**	Year Ended December 31, 2008
Balance, beginning of period	**129,627**	46,812
Granted during the period	**-**	100,782
Redeemed during the period pursuant to option exercise	**(7,091)**	(8,718)
Redeemed during the period upon termination of distribution rights plan	**(122,536)**	-
Forfeited during the period	**-**	(9,249)
Balance, end of period	**-**	129,627

11. Contributed Surplus
The following table reconciles the Company's contributed surplus:

$000's	**Three Months Ended March 31, 2010**	Year Ended December 31, 2009
Contributed surplus, beginning of period	**2,122**	1,531
Stock-based compensation	**128**	827
Shares repurchased at less than carrying value	**-**	117
Shares issued pursuant to Unit Bonus Plan	**-**	(224)
Exercise of share options	**(350)**	(129)
Contributed surplus, end of period	**1,900**	2,122

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

$000's	**9 Months - 2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Office rent	609	763	432	43	-	**1,847**
Vehicle operating leases	83	28	23	-	-	**134**
Total	692	791	455	43	-	**1,981**

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.

In connection with the acquisition of the business assets of Clear Environmental Solutions Inc. on June 12, 2008, the Company was required to pay consideration pursuant to the earn-out payment of $2,000 of which $207 remained outstanding at December 31, 2009 and was paid out in cash during the quarter.

In conjunction with the Champion acquisition, the Company has $2,038 (US$2,000) of deferred acquisition consideration payable in cash upon the earlier of the second anniversary of the acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the United States. The Company paid the outstanding balance of US$2,000 subsequent to March 31, 2010.

13. Financial Instruments and Risk Management
a) Financial instrument measurement and classification
The classification of financial instruments remains consistent at March 31, 2010 with that at December 31, 2009. There have been no changes in the Company's fair value hierarchy assessment from December 31, 2009.

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 includes balances from a large number of 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, 2010**	December 31, 2009
Past due 61-90 days	**3,500**	2,516
Past due 91-120 days	**909**	4
Past 120 days	**521**	224
Total past due	**4,930**	2,744

The Company reduces an account receivable to its estimated recoverable amount. At March 31, 2010, the Company had recorded a provision of $284 (December 31, 2009 - $284) 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, 2010, 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 $22 lower/higher for the three months ended March 31, 2010.

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, 2010, a 1% increase/decrease in the Canadian dollar vis-à-vis the U.S. dollar is estimated to increase/decrease net income of the Company by $1.

At March 31, 2010, 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:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
April 2010	US$163	Deliverable Forward	Physical Purchase	$1.0447
Total	US$163			$1.0447

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated balance sheet. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The 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 balance sheet as assets or liabilities with changes in their fair value recorded in net income for the period. For the three months ended March 31, 2010, the Company recorded a realized loss of $15 relating to its foreign currency derivative contracts. For the three months ended March 31, 2010, the Company recorded an unrealized loss of $3 relating to its foreign currency derivative contracts. The fair value of these outstanding risk management liabilities at March 31, 2010 was $5 (December 31, 2009 – $11). During the three months ended March 31, 2010, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease / increase in net income of the Company 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, 2010, 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:

	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 indebtness	21,727	-	-	-	-	**21,727**
Accounts payable and accrued liabilities	24,285	-	-	-	-	**24,285**
Dividends payable [2]	808	-	-	-	-	**808**
Financial derivative liability	5	-	-	-	-	**5**
Deferred acquisition consideration	2,038	-	-	-	-	**2,038**
Long-term debt at fixed interest rates [3]	203	554	513	235	-	**1,505**
Long-term debt at floating interest rates [3]	204	613	817	2,486	-	**4,120**
Capital lease obligations [3]	213	326	1,283	436	-	**2,258**
Office and vehicle operating leases	173	519	791	498	-	**1,981**
Total	49,656	2,012	3,404	3,655	-	**58,727**

[1] Payments denominated in foreign currencies have been translated at the respective March 31, 2010 exchange rate

[2] Dividends declared as of March 31, 2010

[3] Bank indebtness, long-term debt, and capital lease obligations information reflects principal payments and excludes interest portion

14. Supplemental Information

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

	Three Months Ended March 31,	
$000's	**2010**	2009
Operating activities		
Decrease (increase) in current assets		
Accounts receivable	**(22,415)**	14,981
Inventory	**(1,063)**	2,198
Prepaid expenses	**(64)**	31
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**3,840**	(9,762)
	(19,702)	7,448
Investing activities		
Decrease (increase) in current assets		
Accounts receivable	**-**	-
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(698)**	29
	(698)	29

15. 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, 2010				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	41,251	4,041	4,012	(266)	**49,038**
Gross margin	12,493	1,529	1,445	-	**15,467**
Amortization	560	393	182	-	**1,135**
Interest expense	157	32	8	-	**197**
Income before taxes	6,688	808	570	-	**8,066**
Total assets	139,335	13,471	14,125	-	**166,931**
Capital expenditures	864	460	3	-	**1,327**

	Three Months Ended March 31, 2009				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	24,576	2,000	3,841	(119)	30,298
Gross margin	6,286	431	1,328	-	8,045
Amortization	480	207	190	-	877
Interest expense	109	24	10	-	143
Income before taxes	1,609	85	558	-	2,252
Total assets	83,278	9,150	15,203	-	107,631
Capital expenditures	79	786	2	-	867

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

	Revenue	
	Three Months Ended March 31,	
$000's	**2010**	2009
Canada	**41,515**	29,282
United States	**7,523**	1,016
Total	**49,038**	30,298

	Long-Term Assets [1]	
$000's	**March 31, 2010**	December 31, 2009
Canada	**66,368**	66,044
United States	**16,542**	16,980
Total	**82,910**	83,024

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

16. Economic Dependence

For the three months ended March 31, 2010, no customer accounted for more than 10% (2009 – one customer accounted for 16.2%) of the Company's total revenue.

Information

BOARD OF DIRECTORS
Kyle D. Kitagawa[1]
Chairman

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

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

OFFICERS
Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
HSBC Bank Canada, Calgary, AB

SOLICITORS
Blake, Cassels & Graydon LLP, Calgary, AB

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REGISTRAR & TRANSFER AGENT
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