Q1

Three Months Ended March 31, 2010
As at May 11, 2010

Canadian Energy
SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp., formerly Canadian Energy Services L.P. (collectively "CES" or the "Company") for the three months ended March 31, 2010 and the audited annual consolidated financial statements and notes thereto for years ended December 31, 2009 and December 31, 2008 and CES' 2009 Annual Information Form. The information contained in this MD&A was prepared up to and including May 11, 2010 and incorporates all relevant considerations to that date.

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

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

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, taxation of trusts, public partnerships and other flow-through entities, reassessment and audit risk associated with the Conversion; changes to the royalty regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; changes as a result of IFRS adoption, fluctuations in foreign exchange and interest rates and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2009 and "Risks and Uncertainties" in this MD&A.

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

CORPORATE CONVERSION TRANSACTION

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES trades on the TSX under the trading symbol "CEU".

This MD&A contains discussion and analysis of the financial condition and results of operations of CES post-Conversion. Therefore certain terms used throughout this MD&A have comparable meaning to those used in previous disclosures under the partnership structure such as shareholder/unitholder and dividend/distribution. For the year ended December 31, 2009 all distributions declared to unitholders were in the form of limited partnership unit distributions and beginning in 2010 all dividends declared and paid are eligible Canadian dividends. In addition "CES" or the "Company" is used throughout to describe the business undertaken by the Partnership pre-Conversion and for Canadian Energy Services & Technology Corp. post-Conversion.

BUSINESS OF CES

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

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

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

CES' head office and the sales and services headquarters are located in Calgary, Alberta and its stock point facilities and other operations are located throughout Alberta, British Columbia, and Saskatchewan. CES' indirect wholly-owned subsidiary, AES Drilling Fluids, LLC ("AES"), conducts operations in the United States from its head office in Denver, Colorado and in the mid-continent and Marcellus shale regions through its Champion Drilling Fluids division which is headquartered in Norman, Oklahoma. AES has stock point facilities located in Oklahoma, Texas, Pennsylvania, Michigan, Colorado, North Dakota and Utah.

NON-GAAP MEASURES

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain supplementary information and measures not recognized under Canadian GAAP are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

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

	Three Months Ended March 31,	
$000's	**2010**	2009
Net income	**7,465**	2,154
Add back (deduct):		
Amortization	**1,135**	877
Interest expense, net of interest income	**197**	143
Current income tax expense	**9**	-
Future income tax expense	**592**	98
Stock-based compensation	**128**	396
Unrealized foreign exchange gain	**(2)**	(81)
Unrealized derivative loss	**3**	-
Loss on disposal of assets	**5**	21
EBITDAC	**9,532**	3,608

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

	Three Months Ended March 31,	
$000's	**2010**	2009
Cash provided by (used in) operating activities	**(10,376)**	10,913
Adjust for:		
Change in non-cash operating working capital	**19,702**	(7,448)
Funds flow from operations	**9,326**	3,465

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

These measures do not have a standardized meaning as prescribed by Canadian GAAP and are therefore unlikely to be directly comparable to similar measures presented by other companies, trusts, or partnerships.

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

Expansion capital – represents the amount of capital expenditure that has or will be incurred to grow or expand the business or would otherwise improve the productive capacity of the operations of the business.

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

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

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

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

Well type - CES classifies oil and natural gas wells by depth, as follows:

Shallow wells: Generally less than 1,000 metres;
Medium wells: Generally between 1,000 and 2,500 metres;
Deep wells: Generally greater than 2,500 metres; and
Horizontal wells: Drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each.

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended March 31,		
($000's, except per share amounts)	**2010**	2009	% Change
Revenue	**49,038**	30,298	61.9%
Gross margin [1]	**15,467**	8,045	92.3%
Gross margin percentage of revenue [1]	**31.5%**	26.6%	
Income before taxes	**8,066**	2,252	258.2%
per share – basic [2]	***0.60***	*0.20*	*200.0%*
per share - diluted [2]	***0.60***	*0.20*	*200.0%*
Net income	**7,465**	2,154	246.6%
per share – basic [2]	***0.56***	*0.19*	*194.7%*
per share - diluted [2]	***0.55***	*0.19*	*189.5%*
EBITDAC [1]	**9,532**	3,608	164.2%
per share – basic [2]	***0.71***	*0.32*	*121.9%*
per share - diluted [2]	***0.71***	*0.32*	*121.9%*
Funds flow from operations [1]	**9,326**	3,465	169.1%
per share – basic [2]	***0.70***	*0.31*	*125.8%*
per share - diluted [2]	***0.69***	*0.31*	*122.6%*
Dividends declared	**2,414**	2,642	(8.6%)
per share [2]	***0.18***	*0.2376*	*-24.2%*

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Prior period comparatives includes both Class A Units and Subordinated Class B Units.*

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three months ended March 31, 2010 in comparison to the three months ended March 31, 2009 for CES are as follows:

- CES generated quarterly gross revenue of $49.0 million during the first quarter of 2010, compared to $30.3 million for the three months ended March 31, 2009, an increase of $18.7 million or 61.9% on a year-over-year basis. During Q1 2010, gross revenue on a per diluted share basis was $3.63 per diluted share compared to $2.72 per share for Q1 2009, an increase of 33.4%. The year-over-year increases are due to higher overall revenues for the current year.

- CES' estimated Canadian Market Share (refer to "Operational Definitions") increased to 26% for the three months ended March 31, 2010, up from 20% for the three months ended March 31, 2009. The year-over-year market share increases are believed to be reflective of CES' solutions which are focused on the major resource plays along with CES' service and execution. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 10,253 for the three month period ended March 31, 2010, a increase of 67% from the 6,141 operating days during the same period last year. Overall industry activity increased approximately 34.6% from an average monthly rig count of 320 in the first quarter of 2009 to 431 during the first quarter of 2010 based on CAODC published monthly data for Western Canada.

- Revenue from drilling fluids related sales of products and services in Western Canada was $33.7 million for the three months ended March 31, 2010, compared to $23.6 million for the three months ended March 31, 2009, representing an increase of $10.1 million or 42.8%.

- For the three months ended March 31, 2010, revenue generated in the US from drilling fluid sales of products and services was $7.5 million with an estimated 2,133 operating days (refer to "Operational Definitions") as compared to last year's revenue of $1.0 million with an estimated 149 operating days during the same period. The respective year-over-year increases in activity and revenue in the US in 2010 compared to 2009 are primarily due to the acquisition of Champion Drilling Fluids in Q4 of 2009. CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended March 31, 2010 was estimated to be 2%.

- During the quarter, revenue from trucking operations, gross of intercompany eliminations, totalled $4.0 million, an increase of $2.0 million from the $2.0 million for the three months ended March 31, 2009. The year-over-year increase is due primarily to the expansion of trucking operations in Saskatchewan.

- Clear Environmental Solutions division generated $4.0 million of revenue for the three month period ended March 31, 2010 compared to $3.8 million during the prior year representing an increase of $0.2 million or 5%. The Clear environmental division has benefited from diversification strategies pursued during 2009 to reduce its exposure to shallow natural gas focused drilling.

- For the three month period ended March 31, 2010, CES recorded gross margin of $15.5 million or 31.5% of revenue, compared to gross margin of $8.0 million or 26.6% of revenue generated in the same period last year. Year-over-year, margins were higher primarily due to slightly higher margins achieved on invert sales, higher trucking margins, combined with the realized benefits achieved by CES through its procurement strategies over the last twelve months.

- For the three month period ended March 31, 2010, selling, general, and administrative costs were $6.0 million as compared to $4.4 million for the same period in 2009, an increase of $1.6 million. Selling, general, and administrative costs are higher on a year-over-year comparison due to a combination of factors including the inclusion of Champion costs during the current year and significantly higher activity during the first quarter of 2010 as compared to 2009. Selling, general, and administrative costs increased by $1.2 million in Q1 2010 to $6.0 million from $4.8 million in Q4 2009. CES continues to manage selling, general, and administrative costs in light of prevailing market conditions.

- EBITDAC (refer to "Non-GAAP Measures") for the three months ended March 31, 2010 was $9.5 million as compared to $3.6 million for the three months ended March 31, 2009 representing an increase of $5.9 million or 164.2%.

- CES recorded net income of $7.5 million for the three month period ended March 31, 2010 as compared to net income of $2.2 million in the prior year. CES recorded net basic earnings per share of $0.56 (diluted $0.55) for the three months ended

March 31, 2010 versus net earnings per unit of $0.19 (basic and diluted) in 2009. The year-over-year increase is largely reflective of the increased industry activity in Canada and the Company's increased activity in the US as a result of the acquisition of Champion Drilling Fluids in Q4 2009.

- CES continued to maintain a strong balance sheet at March 31, 2010 with net working capital of $17.6 million (December 31, 2009 - $11.3 million). The increase in working capital is due to the higher overall activity during Q1 2010 as compared to Q4 2009. At March 31, 2010, CES had a net draw of $21.7 million on its operating facility (December 31, 2009 - $8.8 million). The maximum available draw on the $30.0 million facility at March 31, 2010, based on the accounts receivable and inventory balances, was $30.0 million (December 31, 2009 - $20.9 million).

- In conjunction with the Conversion, CES announced a targeted monthly dividend of $0.06 per common share starting in January 2010. CES declared monthly dividends throughout the first quarter of 2010 at its targeted level of $0.06 per share for a total of $0.18 per share for the quarter. This compares to monthly distributions of $0.0792 per share made for a total of $0.2376 per share during the comparable quarter in 2009 under the pre-Conversion distribution policy. Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account industry conditions, growth opportunities requiring expansion capital, and management's forecast of the ability of the Company to pay its liabilities as they become due. Although CES intends to make dividends to shareholders at this targeted amount, these dividends are not guaranteed. Refer to "Cash Flows From Financing Activities" for additional information.

RESULTS FOR THE PERIODS

	Three Months Ended March 31,			
($000's, except per share amounts)	**2010**	2009	$ Change	% Change
Revenue	**49,038**	30,298	18,740	61.9%
Cost of sales	**33,571**	22,253	11,318	50.9%
Gross margin [1]	**15,467**	8,045	7,422	92.3%
Gross margin percentage of revenue [1]	**31.5%**	26.6%		
Selling, general, and administrative expenses	**5,976**	4,425	1,551	35.1%
Amortization	**1,135**	877	258	29.4%
Stock-based compensation	**128**	396	(268)	(67.7%)
Interest expense	**197**	143	54	37.8%
Foreign exchange gain	**(58)**	(69)	11	(15.9%)
Financial derivative loss	**18**	-	18	N/A
Loss on disposal of assets	**5**	21	(16)	(76.2%)
Income before taxes	**8,066**	2,252	5,814	258.2%
Current income tax expense	**9**	-	9	N/A
Future income tax expense	**592**	98	494	504.1%
Net income	**7,465**	2,154	5,311	246.6%
Net income per share – basic	***0.56***	*0.19*	*0.37*	*194.7%*
Net income per share – diluted	***0.55***	*0.19*	*0.36*	*189.5%*
EBITDAC [1]	**9,532**	3,608	5,924	164.2%

Common Shares Outstanding	**2010**	2009 [2]	% Change
End of period	**13,469,809**	11,119,801	21.1%
Weighted average			
- basic	**13,367,833**	11,124,245	20.2%
- diluted	**13,519,021**	11,144,745	21.3%

	As at		
Financial Position ($000's)	**March 31, 2010**	December 31, 2009	% Change
Net working capital	**17,624**	11,347	55.3%
Total assets	**166,931**	130,699	27.7%
Long-term financial liabilities [3]	**5,542**	2,557	116.7%
Shareholders' equity	**97,869**	92,534	5.8%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Prior period comparatives includes both Class A Units and Subordinated Class B Units.
[3] Includes long-term portion of vehicle financing, committed loans, and capital leases.

Revenue and Operating Activities
CES generated quarterly gross revenue of $49.0 million during the first quarter of 2010, compared to $30.3 million for the three months ended March 31, 2009, an increase of $18.7 million or 61.9% on a year-over-year basis. The significant increase in overall revenue on a year-over-year basis is a reflection of the significantly higher level of drilling activity in the WCSB during the current year and the additional revenue relating to the addition of Champion Drilling Fluids.

Of the revenue generated during the first quarter of 2010, $33.7 million (2009 - $23.6 million) was generated in the Western Canadian drilling fluids business; $7.5 million (2009 - $1.0 million) was generated in the US drilling fluids business; $4.0

million (2009 - $3.8 million) was contributed by the Clear environmental division, and $4.0 million, gross of intercompany eliminations, (2009 - $2.0 million) was generated by trucking operations.

The active CAODC monthly rig count in Western Canada averaged 431 for the three months ended March 31, 2010 based on CAODC published monthly data for Western Canada representing a 34.6% increase from the average rig count of 320 during the first quarter of 2009.

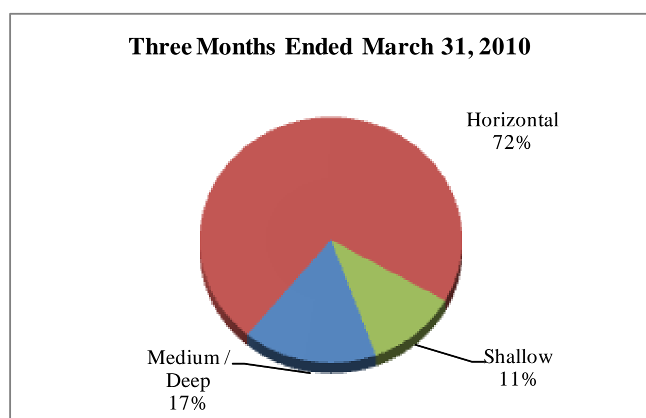
CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada increased to 26% for the three months ended March 31, 2010 from 20% for the three months ended March 31, 2009. CES believes its technology focused solutions have resulted in an increased market share in Western Canada as a larger percentage of drilling activity is focused on deep and horizontal wells and the economics of drilling have become more difficult for operators. CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended March 31, 2010 was estimated to be 2%.

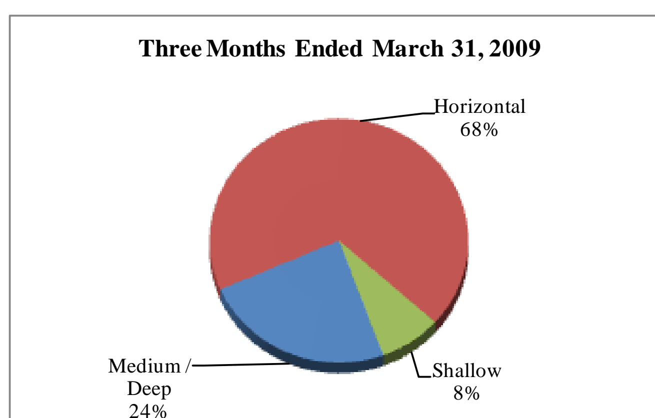
For the quarter ended March 31, 2010, the top five customers of CES accounted for approximately 24% of total revenue (2009 – 37%). In Q1 2009, a large independent exploration and production company, accounted for approximately 16% of CES' 2009 revenue, in Q1 2010 no single customer exceeded 10% of total revenue.

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

	Three Months Ended March 31,	
	2010	2009
Canada	**10,253**	6,141
USA	**2,133**	149
Total Operating Days	**12,386**	6,290

Overall, CES' drilling fluid business continues to focus on the ongoing major resource plays and in particular the medium to deep drilling and horizontal drilling. Horizontal drilling represents a significantly increasing share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex wells. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled. For the three months ended March 31, 2010, medium and deep drilling represented 17% (2009 – 24%) of drilling fluids revenue and horizontal wells represented 72% (2009 – 68%) of drilling fluids revenue. The following charts illustrate CES' estimated revenue from its drilling fluids business by well type in CES' targeted areas:





Cost of Sales and Gross Margin
Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, and all other related field costs. Margins vary due to a change in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, trucking, environmental, etc.).

CES achieved gross margin of $15.5 million or 31.5% of revenue for the three month period ended March 31, 2010 as compared to $8.0 million or 26.6% of revenue in 2009. Year-over-year, quarterly margins were higher primarily due to slightly higher margins achieved on invert sales, higher gross margins achieved on trucking operations due to increased scale, and the realization of the benefits from the Company's procurement strategies and cost reduction measures undertaken during the last twelve months. Throughout 2009, CES focused on maintaining margin integrity by pursuing more effective procurement strategies, maintaining lower overall inventory balances, and implementing other cost management initiatives in order to reduce input costs.

Cost of labour has less of an impact on CES' margins. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services. CES manages staffing levels carefully to match overall staffing to prevailing activity levels. At March 31, 2010, the headcount of field staff was 132 as compared to 104 at December 31, 2009 and 82 at March 31, 2009. The increased field staff head count at March 31, 2010 in part reflects the addition of employees as part of the Champion acquisition and higher overall industry activities in Q1 2010 as compared to Q1 2009.

Selling, General, and Administrative Expenses ("SG&A")

SG&A for the three month period ended March 31, 2010 was $6.0 million as compared to $4.4 million for the same period in 2009 representing an increase of $1.6 million or 35.1% year-over-year. Selling, general, and administrative costs for the quarter are higher on a year-over-year comparison due to a combination of factors including the inclusion of Champion costs and higher overall activity levels in Q1 2010 compared to Q1 2009. CES' office headcount totalled 71 at March 31, 2010 as compared to 70 as at December 31, 2009 and 67 as at March 31, 2009.

Amortization

Amortization of property, equipment, and intangibles totalled $1.1 million for the three month period ended March 31, 2010 in comparison to $0.9 million during 2009. The year-over-year increase in amortization expenses is primarily attributable to the expanded operations of CES compared to last year including additional trucks and trailers for the trucking division and the increase in amortization of intangible assets relating to the Company's acquisition of Champion in Q4 2009.

Stock-based Compensation

Stock-based compensation was $0.1 million for the three months ended March 31, 2010 as compared to $0.4 million during the same period last year. The respective year-over-year decline is primarily attributable to the impacts of the Distribution Rights Plan and the Unit Bonus Plan which were in place during the prior year period. Both of these plans were terminated as part of the Conversion.

Interest Expense

CES had interest expense of $0.2 million for the three months ended March 31, 2010 compared to $0.1 million for Q1 2009. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various debt facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans, the committed facilities, and the operating loan facility.

Foreign Exchange Gain

For the quarter ended March 31, 2010, CES recorded a foreign exchange gain of $0.1 million primarily related to foreign exchange gain on the Company's US denominated cash balances.

Effective January 1, 2010, the Company changed the classification of its U.S. foreign subsidiary operations, 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 $0.2 million being deferred and recorded as

AOCI as at January 1, 2010.

Realized and Unrealized Derivative Losses
For the three month period ended March 31, 2010, CES recorded a realized loss of $0.02 million (2009 - $Nil) relating to its foreign currency derivative contracts. For the three month period ended March 31, 2010, CES recorded an unrealized loss of $0.003 million (2009 - $Nil) relating to its foreign currency derivative contracts. The losses were incurred as a result of the relative depreciation of the US$ dollar vis-à-vis the Canadian dollar over the year. As at March 31, 2010, CES had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases of products to be resold into the Canadian market.

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

Future Income Taxes
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 the United States to the extent that they are not sheltered by existing tax pools. Previously, the income earned directly by the Partnership was taxed at the Partnership unitholder level and as such provisions for current income tax were not made by CES. Effective January 1, 2010, the income of CES will be subject to tax and accordingly future income taxes have been recorded relating to temporary differences expected to reverse after this date.

As a result of the Conversion, a future income tax asset of $15.5 million has been recognized, relating to the Company's non-capital tax loss pools and other tax credits, and a deferred tax credit in the amount of $12.7 has been recognized with the difference of $2.8 million representing the consideration paid to Nevaro in connection with the Conversion. A future tax asset has not been recognized with respect to the Company's capital tax pools due to the uncertainty of realization. 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, $2.1 million of this future income tax asset and $1.7 million of this deferred tax credit have been amortized relating to the estimated usage.

The Company has total non-capital losses, which if not utilized will expire as follows:

2013	$3.2 million
2014	$5.0 million
2015	$2.8 million
2026 and beyond	$52.1 million
Total	$63.2 million

In addition, the Company has other tax credits totalling $2.9 million and capital loss pools totalling $18.8 million.

During the three months ended March 31, 2010, the Company recorded future income tax expense of $0.6 million compared to $0.1 million in Q1 2009 relating to the estimated use of the Company's future income tax assets.

Net Working Capital
CES' net working capital at March 31, 2010 totalled $17.6 million as compared to $11.3 million at December 31, 2009. The increase of $6.3 million in net working capital is primarily a result of higher activity during the first quarter of 2010 as compared to the fourth quarter of 2009.

Total Current Assets
Total current assets of CES increased from $45.7 million at December 31, 2009 to $68.8 million at March 31, 2010. The increase is primarily due to an increase in accounts receivable balances of $22.2 million and an increase of $0.9 in inventory balances as a result of higher activity levels during the first quarter of 2010 as compared to the fourth quarter of 2009.

Total Long-Term Assets

Total long-term assets of CES increased by $13.1 million at March 31, 2010 to $98.1 million from $85.0 million at December 31, 2009. Of the $13.1 million increase during the quarter, notable changes include: (i) $0.5 million decrease in goodwill relating to the translation of the US dollar denominated goodwill balance; (ii) $13.2 million increase in future income tax asset relating to the recognition of non-capital loss assets under the Conversion; (iii) a decrease in intangible assets of $0.3 million relating to the amortization of intangible assets; and (iv) a $0.7 million increase in fixed assets net of $1.1 million in amortization.

Long-Term Financial Liabilities

CES had long-term financial liabilities totalling $5.6 million at March 31, 2010 compared to $2.6 million at December 31, 2009, for an increase of $3.0 million during the quarter. During the three month period ended March 31, 2010, the Company made a draw on an existing non-revolving loan facility for $2.0 million and completed a sale and lease back transaction for proceeds of $2.1 million (refer to additional discussion under "*Liquidity and Capital Resources*"). During Q1 2010, long-term scheduled debt repayments totalling $0.4 million were made. At March 31, 2010, long-term financial liabilities were comprised of vehicle financing loans totalling $1.5 million and committed facilities totalling $4.1 million, net of the current portion of long-term debt of $1.6 million. At March 31, 2010, the Company had lease liabilities of $2.3 million, net of the current portion of $0.7 million.

Subordinated Convertible Debenture

The subordinated convertible debenture (the "Debenture") issued in conjunction with the acquisition of Champion Drilling Fluids Inc. for $6.6 million was converted to into 791,776 common shares of CES, at a fixed conversion price of $8.37 per common share on January 4, 2010. The common shares issued are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard conditions including a change of control of CES, on each of the first, second, and third anniversaries of closing of the acquisition.

Shareholders' Equity

Shareholders' equity increased from $92.5 million at December 31, 2009 to $97.9 million at March 31, 2010. The quarterly increase in shareholder's equity during the period is primarily attributable to $7.5 million in net earnings of CES, proceeds of $1.1 million relating to the exercise of stock options offset by $1.0 million increase in accumulated other comprehensive loss relating to the translation of the Company's wholly owned subsidiary, and $2.4 million of dividends declared by the Company during Q1 2010.

SEGMENTED RESULTS

CES 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. The Trucking segment (EQUAL) is comprised of heavy duty trucks, trailers, and tanker trailers used in hauling drilling fluids to locations and hauling produced fluids for operators. The Environmental Services segment consists of Clear Environmental Services which provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended March 31, 2010				
Segmented Information ($000's)	**Drilling Fluids**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**41,251**	**4,041**	**4,012**	**(266)**	**49,038**
Cost of sales	**28,758**	**2,512**	**2,567**	**(266)**	**33,571**
Gross margin	**12,493**	**1,529**	**1,445**	**-**	**15,467**
Income before taxes	**6,688**	**808**	**570**	**-**	**8,066**
EBITDAC (1)	**7,538**	**1,233**	**761**	**-**	**9,532**

	Three Months Ended March 31, 2009				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	24,577	1,999	3,841	(119)	30,298
Cost of sales	18,291	1,568	2,513	(119)	22,253
Gross margin	6,286	431	1,328	-	8,045
Income before taxes	1,609	85	558	-	2,252
EBITDAC (1)	2,534	316	758	-	3,608

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.

Drilling Fluids Segment

For the three months ended March 31, 2010, revenue from the Drilling Fluids segment totalled $41.3 million compared to $24.6 million for the three months ended March 31, 2009 representing a decrease of $16.7 million or 67.8% primarily reflecting the higher overall industry activity and Canadian Market Share achieved during Q1 2010 as compared to Q1 2009, and the Company's increased activity in the United States as a result of the Champion acquisition in Q4 2009.

CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada increased to 26% for the three months ended March 31, 2010, up from 20% for the three months ended March 31, 2009. The year-over-year Canadian Market Share increase is reflective of CES' solutions which are focused on the major resource plays along with CES' service and execution. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 10,253 for the three month period ended March 31, 2010, an increase of 67% from the 6,141 operating days during the same period last year. Overall industry activity increased approximately 34.6% from an average monthly rig count in the first quarter of 2009 of 320 to 431 during the first quarter of 2010 based on CAODC published monthly data for Western Canada.

For the three months ended March 31, 2010, revenue generated in the US from drilling fluid sales of products and services was $7.5 million with an estimated 2,133 operating days (refer to "Operational Definitions") as compared to last year's revenue of $1.0 million with an estimated 149 operating days during the same period. The respective year-over-year increases in activity and revenue in the US in 2010 compared to 2009 are primarily due to the acquisition of Champion Drilling Fluids in Q4 of 2009. CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended March 31, 2010 was estimated to be 2%.

Gross margin for the Drilling Fluids segment was $12.5 million or 30.3% for the three months ended March 31, 2010 as compared to $6.3 million or 25.6% during the prior year. Gross margin was positively impacted as a result of the Company's procurement strategies undertaken during the last twelve months and CES' other cost management initiatives implemented during 2009

Trucking Segment

Revenue from the Trucking segment, gross of intercompany eliminations, was $4.0 million for the three month period ended March 31, 2010 as compared to $2.0 million during last year. During the quarter, gross margin for the Trucking segment was $1.5 million or 37.8% of revenue compared to last year's gross margin of $0.4 million or 21.6%. Year-over-year, trucking margins have improved in part as a result of increased economies of scale achieved in the Carlyle trucking operations with the

expansion of operations through 2009.

Environmental Services Segment

Revenue from the Environmental Services segment was $4.0 million for the three month period ended March 31, 2010 as compared to $3.8 million generated in the first quarter of 2009 representing an increase of $0.2 million or 5%. Gross margin from the Environmental Services segment was 36.0% for Q1 2010 as compared to 34.6% during 2009. During 2009, the Environmental Services was negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. However, the Environmental Services division has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling which has in turn helped support revenue growth in 2010 and improved gross margins.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	**Mar 31, 2010**	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009
Revenue	**49,038**	27,303	19,219	12,634
Gross margin [1]	**15,467**	9,160	6,085	3,422
Net income (loss) [4]	**7,465**	5,857	718	(1,214)
per share – basic [2]	***0.56***	*0.51*	*0.06*	*(0.11)*
per share – diluted [2]	***0.55***	*0.50*	*0.06*	*(0.11)*
EBITDAC [1] [4]	**9,532**	4,373	2,004	(45)
per share – basic [2]	***0.71***	*0.38*	*0.18*	-
per share – diluted [2]	***0.71***	*0.37*	*0.18*	-
Funds flow from operations [1]	**9,326**	4,169	1,922	(94)
per share – basic [2]	***0.70***	*0.36*	*0.17*	*(0.01)*
per share – diluted [2]	***0.69***	*0.35*	*0.17*	*(0.01)*
Dividends declared	**2,414**	2,787	2,683	2,647
per share [2]	***0.18***	*0.2376*	*0.2376*	*0.2376*
Shares Outstanding [2]				
End of period	**13,469,809**	12,417,573	11,378,055	11,140,301
Weighted average – basic	**13,367,833**	11,576,203	11,224,912	11,140,301
Weighted average – diluted	**13,519,021**	11,765,132	11,297,312	11,140,301

	Three Months Ended			
($000's, except per share amounts)	Mar 31, 2009	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008
Revenue	30,298	41,385	40,850	14,560
Gross margin [1]	8,045	11,980	12,188	3,559
Net income (loss)	2,154	4,715	6,244	(1,055)
per share– basic and diluted [2]	*0.19*	*0.42*	*0.56*	*(0.11)*
EBITDAC [1] [3]	3,608	6,282	7,630	571
per share – basic and diluted [2]	*0.32*	*0.56*	*0.68*	*0.06*
Funds flow from operations [1] [3]	3,465	6,054	7,518	474
per share – basic and diluted [2]	*0.31*	*0.57*	*0.67*	*0.05*
Dividends declared	2,642	2,653	2,653	2,371
per share	*0.2376*	*0.2376*	*0.2376*	*0.2376*
Shares Outstanding [2]				
End of period	11,119,801	11,169,801	11,166,870	11,166,370
Weighted average – basic	11,124,245	11,167,794	11,166,513	9,822,070
Weighted average – diluted	11,144,745	11,167,794	11,230,889	9,822,070

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Prior period comparatives includes both Class A Units and Subordinated Class B Units.*
[3] *Prior year balances recomputed to conform to current year financial statement presentation.*
[4] *For the three months ended December 31, 2009, includes $0.6 million of one-time Conversion related transaction costs*

Seasonality of Operations
The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable resulting in government road bans which severely restrict activity in the second quarter until equipment is moved for summer drilling programs in the fourth quarter. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements, which should be considered in any quarter over quarter analysis of performance.

LIQUIDITY AND CAPITAL RESOURCES

CES had net working capital of $17.6 million at March 31, 2010 compared to $11.3 million at December 31, 2009. The increase of $6.3 million is due to the higher overall level of activity during the first quarter of 2010 as compared to the fourth quarter of 2009.

CES has a revolving demand loan facility with a maximum available draw of $30.0 million. The maximum draw available under the facility is subject to the value of certain accounts receivable and inventory balances. As at March 31, 2010, CES had total bank indebtedness drawn on the facility of $21.7 million compared to $8.8 million at December 31, 2009. The maximum calculated available draw on the facility was $30.0 million at March 31, 2010 based on the value of CES' accounts receivable and inventory balances (December 31, 2009 - $20.9 million). The facility bears interest at the bank's prime rate plus 1.25% and has a standby rate of 0.35% on any unused portion of the facility.

On March 31, 2010, the Company made a draw on its third committed revolving loan facility in the amount of $2.0 million. The loan is repayable over four years in fixed monthly principal payments of $41,667 plus interest at the bank's prime rate of interest plus 1.40%.

In addition to the above loan, CES has two other committed loan facilities:

1. A $1.6 million non-revolving committed loan facility. As of March 31, 2010, there was $1.5 million outstanding (December 31, 2009 - $1.5 million) on the loan. The loan is repayable in fixed monthly principal payments of $9,725 plus interest at the bank's prime rate plus 1.40%. The loan has a remaining term of three years (April 2013), with the bank reserving the right to extend the term by two additional five year periods at its discretion.
2. A $0.8 million non-revolving committed loan facility. As of March 31, 2010, there was $0.6 million outstanding (December 31, 2009 - $0.6 million) on the loan. The loan has a remaining term of three years (April 2013) with fixed monthly principal payments of $16,667 plus interest at the bank's prime rate of interest plus 1.40%.

On March 31, 2010, the Company completed a sale and lease back transaction on specified assets for proceeds of $2.1 million. The Company recognized a gain of $0.2 million 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 $0.06 million.

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.

These facilities impose the following financial covenants on CES:

- The quarterly debt to equity ratio must not exceed 2.50 to 1.00. The ratio of debt to equity is calculated as total liabilities per the financial statements, less future income taxes and net of any cash credit balances, divided by total shareholders' equity per the consolidated financial statements, less any intangible assets including intangible assets and goodwill and excluding future income tax asset.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the consolidated financial statements less current portion of long-term debt.

- CES' annual debt service coverage ratio must not be less than 1.25 to 1.00. The debt service coverage ratio is calculated as net earnings for the period, before interest expense, future income tax expense, unit-based compensation, and amortization divided by the sum of all interest and principal payments for the period.

If CES does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from paying any dividends to shareholders without prior written consent of the lender. As at March 31, 2010, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

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

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 terms ranging from August 2010 to March 2013. At March 31, 2010, outstanding vehicle loans totalled $1.5 million which was comparable to the $1.5 million at December 31, 2009.

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

Cash Flows From Operating Activities

For the three months ended March 31, 2010, cash flow from operating activities was a cash outflow of $10.4 million compared to a cash inflow of $10.9 million during the comparable period in 2009. Funds flow from operations (Refer to "Non-GAAP Measures" for further detail), which takes into consideration changes in non-cash operating working capital, for the three months ended March 31, 2010 was $9.3 million as compared to $3.5 million during 2009.

	Three Months Ended March 31,	
$000's	**2010**	2009
Cash provided by (used in) operating activities	**(10,376)**	10,913
Adjust for:		
Change in non-cash operating working capital	**19,702**	(7,448)
Funds flow from operations	**9,326**	3,465

Cash Flows From Investing Activities

For the three months ended March 31, 2010, cash flow from investing activities was a cash outflow of $5.0 million compared to a cash outflow of $0.7 million during 2009. During the quarter, $2.8 million was spent on the Conversion, $0.2 million was paid as final settlement of the Clear earn-out and $0.7 million related to a change in non-cash investing working capital.

In addition to the above, $1.3 million was spent towards capital asset additions on property and equipment (net of $0.4 million in vehicle financing). For the three months ended March 31, 2010, CES had $0.5 million of additions related to maintenance capital and $1.3 million of additions related to expansion capital gross of vehicle financing. Notable additions during the three month period ended March 31, 2010 included $0.7 million of vehicles, $0.1 million towards the completion of construction of CES' Carlyle, Saskatchewan truck shop, $0.1 million relating to the purchase of trucks and trailers in CES' trucking operations,

$0.1 million in new equipment, $0.2 million towards bulk storage containers, and $0.4 million towards construction of a building in Carlyle, Saskatchewan Details of investment made in property and equipment are as follows:

	Three Months Ended March 31,	
$000's	**2010**	2009
Expansion capital	**1,287**	964
Maintenance capital	**474**	5
Total investment in property and equipment	**1,761**	969
Vehicle financing	**(434)**	(102)
Capital expenditures	**1,327**	867
Change in non-cash investing working capital	**78**	(29)
Cash used for investment in property and equipment	**1,405**	838

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

Cash Flows From Financing Activities
For the quarter ended March 31, 2010, cash flow from financing activities was a cash inflow of $15.3 million compared to a cash outflow of $10.2 million during the first quarter of 2009. For the three month period ended March 31, 2010, CES repaid $0.4 million of its long-term debt balances, paid dividends to shareholders totalling $2.6 million, received proceeds of $1.1 million relating to the exercise of 130,833 stock options, drew $13.0 million on its revolving demand loan facility, completed a $2.0 million draw on a non-revolving loan facility, and completed a $2.1 million sale and lease back transaction.

Dividend Policy
In conjunction with the Conversion, CES announced a targeted monthly dividend of $0.06 per common share starting in January 2010.

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

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation, current and anticipated industry conditions and, particularly, growth opportunities requiring expansion capital and management's forecast of distributable funds. Although, at this time, CES intends to continue to make cash dividends to shareholders, these dividends are not guaranteed. In addition, future expansion, investments and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement, of external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating cash flow improves or warrants, the amount of cash dividends to shareholders may be increased.

Subsequent to March 31, 2010, CES declared a monthly dividend of $0.06 per common shares to shareholders of record at April 30, 2010 for the month of April 2010.

Shareholders' Equity
On January 1, 2010, pursuant to the Conversion, all outstanding Class A Units of Canadian Energy Services LP were converted to common shares of Canadian Energy Services & Technology Corp. During the first quarter of 2010, 791,776 common shares were issued pursuant to the forced conversion of the Debenture, an aggregate of 260,460 common shares were issued pursuant to

the exercise of options, and upon the termination of the Distribution Rights Plan. As of March 31, 2010, and as of the date of this MD&A, CES has a total of 13,469,809 common shares outstanding.

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 and Share Rights Incentive Plan ("SRIP") of which 609,667 remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan
At March 31, 2010, a total of 550,667 (December 31, 2009 - 682,500) Options were outstanding at a weighted average exercise price of $8.76. As at March 31, 2010 a total of 427,834 Options were exercisable at a weighted average price of $8.99. As of the date of this MD&A, there were 550,667 Options outstanding. As a result of the Conversion, all prior grants under the Option Plan will continue based on the terms and conditions of the original grant and all outstanding options issued under the Option Plan will be exercisable for new common shares of CES on a one for one basis. No new grants shall be made under the Option Plan.

b) Share Rights Incentive Plan – established January 1, 2010
In connection with the Conversion, CES has adopted a new SRIP. The SRIP provides incentives to the employees, officers, and directors of CES or its subsidiaries, and certain service providers by issuing rights to acquire common shares ("Share Rights"). Share Rights granted under the SRIP generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the grant. 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. At March 31, 2010, a total of 59,000 Share Rights were outstanding (December 31, 2009 – Nil) of which Nil were exercisable. Subsequent to March 31, 2010, a grant of 421,500 Share Rights was approved by the Company's Board of Directors to selected employees. As of the date of this MD&A an aggregate of 480,500 Share Rights had been granted under the SRIP, none of which have vested and none have been granted to either directors or officers of the Company,

c) Partnership Distribution Rights Plan – terminated January 1, 2010
In conjunction with the Conversion effective January 1, 2010, the Partnership's Distribution Rights Plan was terminated and the outstanding Distribution Rights were redeemed for an aggregate of 122,536 CES common shares on January 15, 2010.

d) Partnership Unit Bonus Plan – terminated January 1, 2010
In conjunction with the Conversion, the Partnership's Unit Bonus Plan was terminated effective January 1, 2010.

Commitments / Contractual Obligations
At March 31, 2010, CES had the following additional commitments not included as liabilities on the CES' balance sheet at March 31, 2010:

$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**

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

CES 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 CES' 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 $0.2 million of which $0.2 million remained outstanding as of December 31, 2009 and was paid out in cash during the first quarter of 2010.

In conjunction with the Champion acquisition, the Company recorded $2.0 million (US$2.0 million) of deferred acquisition consideration ("Deferred Consideration") which is payable in cash upon the earlier of the second anniversary of the acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the United States. During Q1 2010, the Deferred Consideration conditions were achieved and subsequent to the end of the quarter, the Deferred Consideration (US$2.0 million) was paid by the Company on May 3, 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CES prepares its consolidated financial statements in accordance with Canadian GAAP. Except as noted below, the policies used by CES for the three months ended March 31, 2010 remain consistent with those used for the year ended December 31, 2009. Details of CES' significant accounting policies are found in note three of CES' audited financial statements for the year ended December 31, 2009.

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

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

CHANGES IN ACCOUNTING POLICIES

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 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 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 $0.2 million 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.

Future Accounting Pronouncements

Business Combinations

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

Consolidated Financial Statements and Non-Controlling Interests

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

International Financial Reporting Standards (IFRS)

On February 13, 2008, the AcSB confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current Generally Accepted Accounting Principles for all publicly accountable profit oriented enterprises. CES has commenced planning the transition from the current Canadian GAAP to IFRS. The project team is led by senior finance representatives to oversee and manage the transition. As necessary, representatives from other areas of the organization are being included as part of the team as well as external advisors to assist with the project.

The IFRS transition project consists of three phases: initial assessment, detailed assessment and design, and implementation. CES has completed the first phase and is currently in the process of reviewing and assessing the results of the second phase, and will undertake implementation in 2010. The first phase involved the completion of an initial review of the major differences between current Canadian GAAP and IFRS and their impact to the existing account balances of CES, development of a project timeline, and a review of IFRS 1 transition exemptions. The detailed assessment and design phase involved completing a comprehensive analysis of the impact of the IFRS differences identified in the initial assessment. The results of this assessment are currently being reviewed by CES. The implementation phase will involve executing the required changes to business processes, financial systems, IT systems, accounting policies, disclosure controls, and internal controls over financial reporting. As CES' business is not overly complex from an accounting stand-point, it is expected that minimal changes will be required to business processes, financial systems, and IT systems in 2010 in order to complete the transition to IFRS. These minor changes will be implemented in calendar 2010.

CES is currently reviewing and assessing the accounting policies which are expected to be adopted under IFRS. At this time, the quantitative impact on CES' financial statements has not yet been completed. CES plans to complete this assessment in the third quarter of 2010.

As the review of accounting policies to be adopted is completed, appropriate changes to ensure the integrity of internal controls over financial reporting and disclosure controls and procedures will be made. For example, changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. At this point, CES has not implemented the adoption of any new accounting policies. If a new policy differs significantly from an existing policy, additional controls will need to be designed and implemented to ensure that the recorded balance is fairly stated at each reporting period. The certifying officers plan to complete the design, and initially evaluate the effectiveness of, any new controls in the third quarter of 2010 to prepare for certification under IFRS in 2011.

Regular reporting on progress of the IFRS transition project is provided to CES' senior executive management team and to the Audit Committee of the Board of Directors.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

The drilling industry is cyclical and the business of CES is directly affected by fluctuations in the level and complexity of oil and natural gas exploration and development activity carried on by its clients. In Canada, drilling activity is seasonal and, in turn, throughout North America it is directly affected by a variety of factors including: weather; oil, natural gas, and natural gas liquids prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in North America and in turn demand for CES' products and services. There was a dramatic reduction in crude oil and natural gas prices during the last half of 2008. While crude oil prices have since recovered and appear to have stabilized, natural gas prices remain relatively weak compared to recent historical standards and continue to experience significant volatility. This along with reduced access to capital, especially for junior and intermediate producers, resulted in a decline in industry drilling activity levels in the WCSB and the United States in 2009 compared to the previous year. Q4 2009 saw a rebound in activity and this has continued into Q1 2010 and CES has experienced an increase in the demand for its services over the previous year.

The oil and natural gas drilling season is affected by weather. The industry is generally more active in the WCSB during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather, traditionally in the spring and summer, can hamper the movement of drilling rigs which has a direct impact on CES' ability to generate revenue. Conversely, a longer colder winter as well as a dry spring and summer strengthen drilling operations and therefore could serve to enhance CES' revenue generation opportunities. Mitigation of weather risk is difficult, but with the recently completed Champion acquisition and as a result a more diverse geographic profile in the US, cyclical weather should become less of an issue to overall activity levels going forward.

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

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

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

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

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

The turmoil in the financial markets over the past twenty-four months has impacted the general availability of both credit and equity financing in the marketplace. Despite recent improvements, capital markets remain relatively volatile. In December 2009

CES raised $10 million in the equity markets through the completion of a bought deal private placement financing, however past success is not a guarantee of future success. It may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. In addition, should CES' senior lender be unable to, or choose not to fund, it would impair CES' ability to operate, as access to operating line funds is critical to the effective execution of the business. CES has not experienced any funding issues under its debt facilities to date.

CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the LP Agreement in place, only persons who were residents in Canada, or, if partnerships, were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain proposed amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the proposed amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion.

Reference should be made to CES' Annual Information Form dated March 10, 2010 for the period ended December 31, 2009, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

OUTLOOK

Although crude oil prices have rebounded off their lows in early 2009 and appear to have stabilized, natural gas prices continue to remain relatively weak in context to oil prices and recent history. In 2009, overall drilling activity in both the WCSB and the US dropped considerably on a year-over-year basis and despite CES' improved market share statistics in the WCSB, CES also experienced a significant decline in overall activity levels compared to the previous year. Beginning in the fourth quarter of 2009 activity levels began to rebound in both Canada and the US. CES experienced record levels of activity in the Q1 2010 winter drilling season in the WCSB. CES' activity in the US also increased as a result of the Champion acquisition and a general increase in drilling activity. Given the volatile nature of commodity prices coupled with the tentative global economic recovery, the outlook for the remainder of 2010 is difficult to predict. However current expectations are for an improvement in industry activity levels throughout 2010 compared to 2009. CES intends to participate fully in any increase in activity in the WCSB over 2009. In the US, CES has completed the integration of the Champion division and expects to realize additional growth opportunities in the US during 2010. CES continues to closely manage its dividend levels and capital expenditures in order to preserve its balance sheet strength and liquidity position while still taking advantage of business opportunities as they arise.

Despite the uncertain times facing the North American drilling market, CES' exposure to the key resource plays and to the growth in the number of horizontal wells being drilled bodes well for future growth. A larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times and costs and our unique products like Seal-AX™/PolarBond and Liquidrill™/Tarbreak, combined with our concerted focus on providing superior service, positions CES well in this increasingly technically competitive environment. CES believes that its unique value propositions in the increasingly complex drilling environment will position it as the premium independent drilling fluids provider in the market.

Management believes that CES' technologies have global application and CES will continue to pursue opportunities that align our service offerings with the needs of our customers. We are confident that our technologies will be embraced as we build out our operations. In particular, with the Champion acquisition completed in the US, management believes CES' presence in the Rockies and Mid-Continent regions of the US offer significant growth opportunities. These markets present us with potential incremental growth and future access into other basins in the United States. The Marcellus shale play in the Northeast US has

particular promise for near-term market gains and is a focus of expansion efforts. Our strategy remains to utilize our patented and proprietary technologies and local personnel to create market share in the US.

The EQUAL Transport division experienced significant expansion in 2009, particularly in south-eastern Saskatchewan where the business was expanded to not only haul drilling fluids and products to drilling locations, but also to provide other oilfield hauling services to our customers including the hauling of produced fluids. It is expected this business will continue to be economically attractive and may expand further as viable opportunities emerge.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business. During 2009, the division was negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. The Environmental Services division has focused on expanding its operational base in the WCSB and is pursuing opportunities in the oil sands and horizontal drilling markets. The environmental division has experienced an increase in activity beginning in the fourth quarter of 2009 which has carried over into the first quarter of 2010.

As drilling has become more complex, the applied down-hole technologies are becoming increasingly important in driving success for operators. CES will continue to invest in research and development to be a leader in technology advancements in the drilling fluids market. In addition, CES continues to assess integrated business opportunities that will keep CES competitive and enhance profitability.

CORPORATE GOVERNANCE

For information regarding the corporate governance policies and practices of CES, the Reader should refer to CES' 2009 Annual Report, CES' Annual Information Form dated March 10, 2010 in respect of the year ended December 31, 2009, and CES' Information Circular in respect to the June 26, 2009 Annual General and Special Meeting of unitholders each of which are available on the CES' SEDAR profile at www.sedar.com.

ADDITIONAL INFORMATION

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

Information

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