Canadian Energy
SERVICES

Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2010

Consolidated Balance Sheets (unaudited)

(stated in thousands of dollars except per share amounts)

	As at	
	June 30, 2010	December 31, 2009
ASSETS		
Current assets		
Accounts receivable	**45,671**	35,336
Inventory (note 4)	**20,614**	10,001
Prepaid expenses	**561**	389
	66,846	45,726
Property and equipment (note 5)	**24,133**	14,564
Intangible assets (note 3)	**22,377**	7,169
Future income tax asset (note 10)	**15,231**	1,949
Goodwill (note 3)	**93,592**	61,291
	222,179	130,699
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 6)	**14,888**	8,762
Bridge loan (note 7)	**41,920**	-
Accounts payable and accrued liabilities	**21,465**	21,212
Financial derivative liability (note 15)	**-**	11
Earn-out payable	**-**	207
Deferred acquisition consideration (notes 3 and 14)	**5,240**	2,098
Dividends payable	**1,181**	983
Current portion of capital lease obligation (note 9)	**1,009**	-
Current portion of long-term debt (note 8)	**1,585**	1,106
	87,288	34,379
Long-term debt (note 8)	**3,758**	2,557
Capital lease obligation (note 9)	**1,455**	-
Future income tax liability	**1,610**	1,229
Deferred tax credit (note 10)	**11,157**	-
	105,268	38,165
Commitments (note 14)		
Shareholders' equity		
Common shares (note 11)	**147,087**	117,448
Subordinate convertible debenture	**-**	6,627
Contributed surplus (note 13)	**2,230**	2,122
Deficit	**(32,370)**	(33,663)
Accumulated other comprehensive loss	**(36)**	-
	116,911	92,534
	222,179	130,699

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

Consolidated Statements of Operations and Deficit and Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss (unaudited)
(stated in thousands of dollars except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Revenue	**27,212**	12,634	**76,250**	42,932
Cost of sales (note 4)	**20,712**	9,212	**54,283**	31,465
Gross margin	**6,500**	3,422	**21,967**	11,467
Expenses				
Selling, general, and administrative expenses	**5,097**	3,477	**11,073**	7,902
Amortization	**1,201**	883	**2,336**	1,760
Stock-based compensation (note 12)	**342**	160	**470**	556
Interest expense	**275**	49	**472**	192
Foreign exchange loss (gain)	**64**	2	**6**	(67)
Financial derivative loss (gain) (note 15)	**3**	(38)	**21**	(38)
Loss on disposal of assets	**19**	46	**24**	67
	7,001	4,579	**14,402**	10,372
Income (loss) before taxes	**(501)**	(1,157)	**7,565**	1,095
Current income tax expense	**34**	-	**43**	-
Future income tax expense	**425**	57	**1,017**	155
Net income (loss)	**(960)**	(1,214)	**6,505**	940
Deficit, beginning of period	**(28,612)**	(30,907)	**(33,663)**	(30,419)
Dividends declared	**(2,798)**	(2,647)	**(5,212)**	(5,289)
Deficit, end of period	**(32,370)**	(34,768)	**(32,370)**	(34,768)
Net income (loss) per share (note 11)				
Basic	**(0.07)**	(0.11)	**0.48**	0.08
Diluted	**(0.07)**	(0.11)	**0.48**	0.08
Net income (loss)	**(960)**	(1,214)	**6,505**	940
Other comprehensive income (loss):				
Unrealized gain on translation of self-sustaining foreign operations	**950**	-	**173**	-
Comprehensive income (loss)	**(10)**	(1,214)	**6,678**	940
Accumulated other comprehensive loss, beginning of period	**(986)**	-	**-**	-
Adjustment for change in foreign currency translation method (note 2)	**-**	-	**(209)**	-
Other comprehensive income	**950**	-	**173**	**-**
Accumulated other comprehensive income (loss), end of period	**(36)**	-	**(36)**	-

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 June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income (loss) for the period	**(960)**	(1,214)	**6,505**	940
Items not involving cash:				
Amortization	**1,201**	883	**2,336**	1,760
Stock-based compensation	**342**	160	**470**	556
Future income tax expense	**425**	57	**1,017**	155
Loss on disposal of assets	**19**	46	**24**	67
Unrealized foreign exchange (gain) loss	**45**	12	**43**	(69)
Unrealized financial derivative gain	**(3)**	(38)	**-**	(38)
Change in non-cash operating working capital (note 16)	**10,538**	11,476	**(9,164)**	18,924
	11,607	11,382	**1,231**	22,295
FINANCING ACTIVITIES:				
Repayment of long-term debt and capital leases	**(695)**	(485)	**(1,047)**	(962)
Issuance of long-term debt and lease proceeds	**-**	-	**4,147**	-
Issuance of shares, net of issuance costs	**39**	-	**1,181**	-
Bridge Loan financing	**41,920**	-	**41,920**	-
Increase (decrease) in bank indebtedness	**(6,847)**	(5,585)	**6,118**	(12,702)
Shareholder dividends	**(2,425)**	(2,986)	**(5,014)**	(5,632)
	31,992	(9,056)	**47,305**	(19,296)
INVESTING ACTIVITIES:				
Investment in property and equipment	**(1,541)**	(489)	**(2,868)**	(1,356)
Investment in intangible assets	**(24)**	(10)	**(44)**	(42)
Deferred acquisition consideration	**(2,038)**	-	**(2,245)**	-
Conversion transaction	**-**	-	**(2,800)**	-
Acquisition of Fluids Management (note 3)	**(40,563)**	-	**(40,563)**	-
Proceeds on disposal of fixed assets	**274**	213	**349**	398
Change in non-cash investing working capital (note 16)	**301**	83	**(397)**	112
	(43,591)	(203)	**(48,568)**	(888)
Effect of exchange rate on cash balances	**(8)**	(30)	**32**	(18)
CHANGE IN CASH	**-**	2,093	**-**	2,093
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**-**	2,093	**-**	2,093
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**273**	62	**512**	247
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 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.

Business Combinations
In January 2009, the Canadian Institute of Chartered Accountant's 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. The Company adopted this standard effective January 1, 2010 and has had no effect except for that the acquisition in note 3 will be accounted for in accordance with new the new guidelines.

Consolidated Financial Statements and Non-Controlling Interests
In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning after January 2011 with earlier application permitted. The Company adopted these standards effective January 1, 2010 and there was no effect to the Company.

3. Business Acquisition

On June 30, 2010, the Company closed its acquisition of selected drilling fluids business assets of Fluids Management II, Ltd., Brookshire Investment Trust, and Stikley Enterprises, Inc. (collectively "Fluids Management"), a privately-held Texas-based drilling fluids services company which designs and implements drilling fluid systems for oil and gas operators in the United States. The effective date of the acquisition was June 21, 2010. The aggregate purchase price was $67,271 consisting of $40,563 (US$38,705) in cash, $21,468 in share consideration through the issuance of 1,289,370 common shares of the Company, and $5,240 (US$5,000) in additional deferred acquisition consideration. The US$5,000 is contingent based as an earn-out and is payable upon the Fluids Management division achieving an EBITDA target of US$9,500 for the twelve month period post close. In addition, as of June 30, 2010, the Company has entered into an agreement to purchase selected real estate assets for total consideration of US$1,795 subject to the completion of satisfactory environmental assessments.

The acquisition was accounted for using the purchase method. The purchase price allocation is based upon the respective closing date values as of June 30, 2010. The Company is continuing to review the purchase price allocation and the final purchase price allocation may change. The preliminary purchase price allocation is as follows:

Allocation of purchase price $000's	
Current assets	14,173
Property and equipment	8,244
Intangible assets	15,825
Goodwill	32,338
Total assets	**70,580**
Current liabilities	(2,888)
Current portion of capital lease obligation	(352)
Long-term portion of capital lease obligation	(69)
Total liabilities	**(3,309)**
Net assets acquired	**67,271**

Consideration given $000's	
Cash	40,563
Share consideration	21,468
Deferred acquisition consideration	5,240
Total consideration	**67,271**

4. Inventory
The cost of inventory expensed in cost of sales for the three and six months ended June 30, 2010 was $13,546 and $36,571 respectively (2009 - $5,916 and $20,214 respectively).

5. Property and Equipment
Property and equipment are comprised of the following balances:

	As at June 30, 2010			As at December 31, 2009		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Trucks	**6,074**	**(1,730)**	**4,344**	5,680	(1,242)	4,438
Buildings	**5,647**	**(481)**	**5,166**	4,117	(355)	3,762
Tanks	**4,805**	**(129)**	**4,676**	902	(99)	803
Vehicles	**4,753**	**(1,616)**	**3,137**	3,725	(1,342)	2,383
Field equipment	**3,438**	**(1,081)**	**2,357**	2,182	(865)	1,317
Computer equipment and software	**1,879**	**(680)**	**1,199**	1,177	(580)	597
Processing equipment	**1,456**	**-**	**1,456**	-	-	-
Land	**1,067**	**-**	**1,067**	989	-	989
Furniture and fixtures	**453**	**(166)**	**287**	301	(133)	168
Leasehold improvements	**496**	**(52)**	**444**	136	(29)	107
	30,068	**(5,935)**	**24,133**	19,209	(4,645)	14,564

6. Bank Indebtedness
The Company 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 June 30, 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 and Bridge Loan, 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.

7. Bridge Loan
In conjunction with the Fluids Management acquisition (note 3), the Company arranged for bank financing (the "Bridge Loan") to initially finance the cash portion of the purchase price for the period between the closing of the Fluids Management acquisition on June 30, 2010 and the closing of the bought deal financing (note 11) which closed on July 13, 2010. Interest on the loan consists of a weekly fee of $8 per week plus interest on the funds borrowed at a rate of prime plus 1.25% on the balance drawn. The Bridge Loan is repayable within 45 days. On July 13, 2010, the Bridge Loan was fully repaid.

8. Long-Term Debt
The Company has long-term debt as follows:

$000's	**June 30, 2010**	December 31, 2009
Vehicle financing loans	**1,417**	1,464
Committed loan facilities	**3,926**	2,199
	5,343	3,663
Less current portion of long-term debt	**(1,585)**	(1,106)
Long-term debt	**3,758**	2,557

Details of the Company's outstanding loan facilities as of June 30, 2010 are as follows:

Facility	Balance Outstanding $000's	Interest Rate	Monthly Payments $000's	Term
1	1,487	Prime + 1.40%	10	April 2013 [(1)]
2	564	Prime + 1.40%	17	April 2013
3	1,875	Prime + 1.40%	42	March 2014
	3,926		**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 6.16%, and have termination dates ranging from August 2010 to June 2013.

For the three and six months ended June 30, 2010, the Company paid $80 and $128 respectively (2009 - $42 and $98 respectively) in interest expense related to its long-term debt balances.

Scheduled principal payments at June 30, 2010 are as follows:

$000's	
2010 - 6 Months	**808**
2011	**1,433**
2012	**1,172**
2013	**1,804**
2014	**125**
2015	**-**
Total	**5,342**

9. 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 equipment leases are for terms ranging from March 2013 to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%. The Company's vehicle leases are for terms ranging from July 2010 through December 2012 and interest rates of up to 10.41% with a weighted average interest rate of approximately 7.8%. Assets under capital leases at June 30, 2010 totaled $2,854 with accumulated amortization of $246. Amortization expense relating assets under capital lease for the six months ended June 30, 2010 totaled $246.

10. 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 six month period ended June 30, 2010, $1,858 of this future income tax asset and $1,522 of this deferred tax credit has been amortized relating to the estimated usage.

11. 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:

	Six Months Ended June 30, 2010		Year Ended December 31, 2009	
Common Shares *($000's except shares)*	**Number of Shares**	**Amount**	Number of Shares	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 (note 3)	**1,289,370**	**21,468**	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	**135,833**	**1,181**	45,500	353
Contributed surplus related to Option Plan exercise	**-**	**363**	-	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	**14,764,179**	**147,087**	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) Subscription Receipts

On July 13, 2010, in conjunction with the Fluids Management acquisition (note 3), the Company, through a syndicate of underwriters, completed a bought deal private placement financing (the "Offering"). Pursuant to the Offering, the Company issued a total of 2,905,000 Subscription Receipts at $15.50 per Subscription Receipt for gross proceeds of $45,028.

The proceeds of the Offering were released to the Company upon the satisfaction of the escrow release conditions, including closing of the acquisition of certain assets from Fluids Management II, Ltd. and obtaining shareholder approval of the issuance of the Common Shares underlying the Subscription Receipts (the "Escrow Release Conditions").

Each Subscription Receipt is exercisable by the holder thereof at any time following the date on which the Escrow Release Conditions were satisfied and each unexercised Subscription Receipt shall be deemed to be exercised automatically (for no further consideration and with no further action on the part of the holder thereof) into one common share, subject to adjustment in certain events, upon the earlier of: (i) the date that is four months and one day following the closing date of the Offering; and (ii) the third business day after a receipt is issued for a (final) prospectus by the securities regulatory authorities (the "Receipt") in each of the provinces of Canada where Subscription Receipts were issued and sold qualifying the distribution of the Common Shares to be issued upon the exercise of the Subscription Receipts.

The Company has also agreed to use its commercially reasonable efforts to file and obtain the receipt in each of the provinces of Canada where Subscription Receipts are issued and sold on or before the date that is 60 days after the closing of the Offering (the "Prospectus Deadline Date"). If the Receipt is not issued by the Prospectus Deadline Date, each holder of Subscription Receipts shall receive 1.1 Common Shares for each Subscription Receipt held.

On July 13, 2010, net proceeds from the offering of $42,694 after underwriter fees from the financing were used to repay the US$40,000 Bridge Loan facility (note 7) incurred in conjunction with the Fluids Management acquisition.

d) Net income per share

In calculating the basic and diluted net income per share for the three and six months ended June 30, 2010 and 2009, the weighted average number of shares used in the calculation is shown in the table below. Dilutive securities relate to shares issuable under the Company's Option Plan and Share Rights Incentive Plan. For the three months ended June 30, 2010 and 2009, due to the net quarterly loss, diluted earnings per share is equal to basic earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's, except share and per share amounts	**2010**	2009	**2010**	2009
Net income (loss)	**(960)**	(1,214)	**6,505**	940
Weighted average number of shares outstanding:				
Basic shares outstanding	**13,486,011**	11,140,301	**13,427,249**	11,132,318
Effect of dilutive securities	**-**	-	**119,084**	56,171
Diluted shares outstanding	**13,486,011**	11,140,301	**13,546,333**	11,188,489
Net income (loss) per share - basic	**($0.07)**	($0.11)	**$0.48**	$0.08
Net income (loss) per share - diluted	**($0.07)**	($0.11)	**$0.48**	$0.08

12. Stock-Based Compensation

As at June 30, 2010, a total of 1,476,418 common shares were reserved for issuance under the Company's Option Plan and Share Rights Incentive Plan of which 456,251 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:

	Six Months Ended June 30, 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	**(135,833)**	**8.69**	(45,500)	7.80
Forfeited during the period	**(1,000)**	**10.03**	(82,500)	9.70
Balance, end of period	**545,667**	**$8.77**	682,500	$8.75
Exercisable options, end of period	**449,167**	**$9.00**	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:

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

	Six Months Ended June 30, 2010	
	Share Rights	Average Exercise Price
Balance, beginning of period	**-**	**$ -**
Granted during the period	**486,500**	**14.30**
Forfeited during the period	**(12,000)**	**12.73**
Balance, end of period	**474,500**	**$14.34**
Exercisable Share Rights, end of period	**-**	**$ -**

The fair value of the Share Rights granted, as of the date of grant, during the three and six months ended June 30, 2010 was $1,556 and $1,755 respectively. The compensation costs for Share Rights granted during the six month period ended June 30, 2010 were calculated using the Black-Scholes option pricing model using the following assumptions:

	Six Months Ended June 30, 2010
Risk-free interest rate	**1.86% - 2.65%**
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	**54.83% - 55.63%**
Weighted average fair value per Share Right	**$3.61**

For the three and six months ended June 30, 2010, stock compensation expense of $342 and $470 respectively (2009 - $81 and $266 respectively) was recorded relating to the Company's Option and Share Rights stock-based compensation plans. The following table summarizes information about the outstanding grants under the Company's SRIP and Option Plan as at June 30, 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	205,167	$6.59	2.22	149,750	$6.67
$8.01 - $11.31	340,500	10.08	1.49	299,417	10.17
$11.32 - $14.54	474,500	14.34	4.76	-	-
	1,020,167	$11.36	3.16	449,167	$9.00

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	Six Months Ended June 30, 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

13. Contributed Surplus

The following table reconciles the Company's contributed surplus:

$000's	**Six Months Ended June 30, 2010**	Year Ended December 31, 2009
Contributed surplus, beginning of period	**2,122**	1,531
Stock-based compensation	**470**	827
Shares repurchased at less than carrying value	**-**	117
Shares issued pursuant to Unit Bonus Plan	**-**	(224)
Exercise of share options	**(362)**	(129)
Contributed surplus, end of period	**2,230**	2,122

14. Commitments, Earn-Out Payable, and Deferred Acquisition Consideration

The Company has commitments with payments due as follows:

$000's	**6 Months - 2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Office rent	409	774	443	46	-	**1,672**
Vehicle operating leases	63	47	33	-	-	**143**
Total	472	821	476	46	-	**1,815**

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 conjunction with the Champion acquisition, the Company had 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 on May 3, 2010.

In conjunction with the Fluids Management acquisition (note 3), the Company has $5,240 (US$5,000) in additional deferred acquisition consideration payable in cash upon the Fluids Management division achieving an EBITDA target of US$9,500 for the twelve month period post close.

15. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at June 30, 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	**June 30, 2010**	December 31, 2009
Past due 61-90 days	**2,555**	2,516
Past due 91-120 days	**1,194**	4
Past 120 days	**335**	224
Total past due	**4,084**	2,744

The Company reduces an account receivable to its estimated recoverable amount. At June 30, 2010, the Company had recorded a provision of $94 (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 June 30, 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 $30 and $52 lower/higher for the respective three and six months ended June 30, 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 and six months ended June 30, 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 $10 and $11 for the respective three and six months ended June 30, 2010.

At June 30, 2010, the Company had no outstanding foreign exchange U.S. dollar forward purchases. For the three and six months ended June 30, 2010, the Company recorded a realized loss of $6 and $21 respectively relating to foreign currency derivative 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 June 30, 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 as of June 30, 2010:

	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 [3]	14,888	-	-	-	-	**14,888**
Accounts payable and accrued liabilities	21,465	-	-	-	-	**21,465**
Deferred acquisition consideration	-	5,240	-	-	-	**5,240**
Dividends payable [2]	1,181	-	-	-	-	**1,181**
Long-term debt at fixed interest rates [3]	200	508	486	223	-	**1,417**
Long-term debt at floating interest rates [3]	204	613	817	2,292	-	**3,926**
Capital lease obligations [3]	293	711	711	749	-	**2,464**
Office and vehicle operating leases	236	647	649	283	-	**1,815**
Sub-total	38,467	7,719	2,663	3,547	-	**52,396**
Bridge Loan [4]	41,920	-	-	-	-	**41,920**
Total	80,387	7,719	2,663	3,547	-	**94,316**

[1] Payments denominated in foreign currencies have been translated at the respective June 30, 2010 exchange rate

[2] Dividends declared as of June 30, 2010

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

[4] The Bridge Loan was repaid on July 13, 2010 following completion of the Offering (note 10)

16. Supplemental Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2010**	2009	**2010**	2009
Operating activities				
Decrease (increase) in current assets				
Accounts receivable	**16,158**	17,904	**(6,257)**	32,885
Inventory	**(61)**	(166)	**(1,124)**	2,032
Prepaid expenses	**(106)**	(4)	**(170)**	27
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**(5,453)**	(6,258)	**(1,613)**	(16,020)
	10,538	11,476	**(9,164)**	18,924
Investing activities				
Decrease (increase) in current assets				
Accounts receivable	**650**	-	**650**	-
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**(349)**	83	**(1,047)**	112
	301	83	**(397)**	112

17. 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 June 30, 2010				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	23,501	2,511	1,441	(241)	**27,212**
Gross margin	5,181	742	577	-	**6,500**
Amortization	616	403	182	-	**1,201**
Interest expense	256	17	2	-	**275**
Loss before taxes	(382)	(1)	(118)	-	**(501)**
Total assets	198,336	11,608	12,235	-	**222,179**
Capital expenditures	1,330	206	5	-	**1,541**

	Three Months Ended June 30, 2009				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	10,467	1,424	988	(245)	12,634
Gross margin	2,639	342	441	-	3,422
Amortization	460	253	170	-	883
Interest expense	38	10	1	-	49
Loss before taxes	(1,012)	(32)	(113)	-	(1,157)
Total assets	71,145	8,021	12,340	-	91,506
Capital expenditures	61	428	-	-	489

	Six Months Ended June 30, 2010				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	**Total**
Revenue	64,751	6,552	5,454	(507)	**76,250**
Gross margin	17,674	2,271	2,022	-	**21,967**
Amortization	1,175	797	364	-	**2,336**
Interest expense	434	34	4	-	**472**
Income before taxes	6,114	822	629	-	**7,565**
Total assets	198,336	11,608	12,235	-	**222,179**
Capital expenditures	2,095	765	8	-	**2,868**

	Six Months Ended June 30, 2009				
$000's	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	35,041	3,425	4,829	(363)	42,932
Gross margin	8,924	774	1,769	-	11,467
Amortization	942	459	359	-	1,760
Interest expense	147	40	5	-	192
Income before taxes	698	36	361	-	1,095
Total assets	71,145	8,021	12,340	-	91,506
Capital expenditures	140	1,214	2	-	1,356

Geographical information relating to the Company's activities is shown in the tables below. The long-term assets include balances related to the Fluids Management acquisition (note 3). Since the acquisition closed on June 30, 2010, no revenues or expenses have been recognized by the Company for the three or six months ended June 30, 2010 relating to its operations.

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2010**	2009	**2010**	2009
Canada	**18,703**	11,502	**60,218**	40,784
United States	**8,509**	1,132	**16,032**	2,148
Total	**27,212**	12,634	**76,250**	42,932

	Long-Term Assets [1]	
$000's	**June 30, 2010**	December 31, 2009
Canada	**57,445**	66,044
United States	**82,657**	16,980
Total	**140,102**	83,024

(1) Includes: Property and equipment, goodwill, and intangible assets

18. Economic Dependence
For the three and six months ended June 30, 2010, no customer accounted for more than 10% of the Company's total revenue (2009 – one customer accounted for 16.2% and 16.2% respectively).

19. Subsequent Events
As outlined in note 11, on July 13, 2010, the Company, through a syndicate of underwriters, completed a bought deal private placement financing. Pursuant to the Offering, the Company issued a total of 2,905,000 Subscription Receipts at $15.50 per Subscription Receipt for gross proceeds of $45,028. The proceeds were used to repay the US$40,000 Bridge Loan (note 7) on July 13, 2010.

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Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

Kathryn Sherman

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

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Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

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