Q3

Three and Nine Months Ended September 30, 2010
As at November 5, 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 and nine months ended September 30, 2010 and the 2009 Annual Report, including audited 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 November 5, 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 North American oil and natural gas industry. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in various basins in the United States ("US"), with an emphasis on servicing the ongoing major resource plays. The drilling of those major resource plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling is a technique utilized in tight formations like tight gas, tight oil, heavy oil, and in the oil sands. The designed drilling fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. CES' drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process and to assist them in meeting operational objectives and environmental compliance obligations. CES markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of both its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

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

EQUAL Transport ("EQUAL"), CES' transport division, provides its customers with 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; in the mid-continent region through its Champion Drilling Fluids division which is headquartered in Norman, Oklahoma; and in Texas, Louisiana, off-shore Gulf of Mexico and Northeast US through its Fluids Management division headquartered in Houston, Texas. AES has stock point facilities located in Oklahoma, Texas, Pennsylvania, Michigan, Colorado, North Dakota, Louisiana, 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 September 30,		Nine Months Ended September 30,	
$000's	**2010**	2009	**2010**	2009
Net income	**8,090**	718	**14,595**	1,658
Add back (deduct):				
Amortization	**2,126**	840	**4,462**	2,600
Interest expense, net of interest income	**537**	82	**1,009**	274
Current income tax expense	**153**	-	**196**	-
Future income tax expense	**2,286**	70	**3,303**	225
Stock-based compensation	**323**	147	**793**	703
Unrealized foreign exchange (gain) loss	**(27)**	98	**8**	29
Unrealized derivative (gain) loss	**(10)**	47	**(10)**	9
(Gain) loss on disposal of assets	**(25)**	2	**(1)**	69
EBITDAC	**13,453**	2,004	**24,355**	5,567

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 September 30,		Nine Months Ended September 30,	
$000's	**2010**	2009	**2010**	2009
Cash provided by (used in) operating activities	**(20,813)**	(817)	**(19,590)**	21,478
Adjust for:				
Change in non-cash operating working capital	**33,576**	2,739	**42,740**	(16,185)
Funds flow from operations	**12,763**	1,922	**23,150**	5,293

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

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

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 September 30,			Nine Months Ended September 30,		
($000's, except per share amounts)	**2010**	2009	% Change	**2010**	2009	% Change
Revenue	**78,398**	19,219	307.9%	**154,648**	62,151	148.8%
Gross margin [(1)]	**22,741**	6,085	273.7%	**44,708**	17,552	154.7%
Gross margin percentage of revenue [(1)]	**29.0%**	31.7%		**28.9%**	28.2%	
Income before taxes	**10,529**	788	1236.2%	**18,094**	1,883	860.9%
per share – basic [(2)]	***0.68***	*0.07*	871.4%	***1.28***	*0.17*	*652.9%*
per share - diluted [(2)]	***0.60***	*0.07*	757.1%	***1.22***	*0.17*	*617.6%*
Net income	**8,090**	718	1026.7%	**14,595**	1,658	780.3%
per share – basic [(2)]	***0.52***	*0.06*	766.7%	***1.03***	*0.15*	*586.7%*
per share - diluted [(2)]	***0.46***	*0.06*	666.7%	***0.98***	*0.15*	*553.3%*
EBITDAC [(1)]	**13,453**	2,004	571.3%	**24,355**	5,567	337.5%
per share – basic [(2)]	***0.87***	*0.18*	383.3%	***1.72***	*0.50*	*244.0%*
per share - diluted [(2)]	***0.77***	*0.18*	327.8%	***1.64***	*0.50*	*228.0%*
Funds flow from operations [(1)]	**12,763**	1,922	564.0%	**23,150**	5,293	337.4%
per share – basic [(2)]	***0.82***	*0.17*	382.4%	***1.64***	*0.47*	*248.9%*
per share - diluted [(2)]	***0.73***	*0.17*	329.4%	***1.55***	*0.47*	*229.8%*
Dividends declared	**3,786**	2,683	41.1%	**8,998**	7,972	12.9%
per share [(2)]	***0.24***	*0.2376*	*1.0%*	***0.62***	*0.4752*	*30.5%*

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 and nine months ended September 30, 2010 in comparison to the three and nine months ended September 30, 2009 for CES are as follows:

- On June 30, 2010, CES closed the acquisition of Fluids Management II, Ltd. ("Fluids Management") to acquire all of the drilling fluids business assets of Fluids Management, and certain additional assets relating to Fluids Management from two affiliates of Fluids Management, Brookshire Investment Trust and Stikley Enterprises, Inc. (collectively the "Fluids Management Acquisition"). The effective date of the Fluids Management Acquisition was June 21, 2010. However, under Canadian GAAP, the revenue and expenses with respect to Fluids Management for the period from the effective date through to the June 30, 2010 closing date were accounted for as a working capital adjustment to the purchase price allocation and were not included in the net earnings of the Company for the three month period ended June 30, 2010. Beginning July 1, 2010 the consolidated operating results of CES include the results from the Fluids Management division.

- CES generated gross revenue of $78.4 million during the third quarter of 2010, compared to $19.2 million for the three months ended September 30, 2009, an increase of $59.2 million or 308% on a year-over-year basis. Year to date, gross revenue has totalled $154.6 million, compared to $62.2 million last year, representing an increase of $92.5 million or 149% on a year-over year basis. During Q3 2010, gross revenue was $4.47 per diluted share compared to $1.70 per share for Q3 2009, an increase of 163%. The respective year-over-year increases in activity and revenue in the US in 2010 compared to 2009 are attributable to the two accretive acquisitions completed by CES (Champion Drilling Fluids in Q4 of 2009, the Fluids Management Acquisition completed at the end of Q2 2010, the “US Acquisitions”), and the organic growth that the Company has been able to generate off of these platforms.

- CES’ estimated Canadian Market Share (refer to “Operational Definitions”) remained consistent with last year at approximately 28% for the three months ended September 30, 2010, up slightly from 27% for the three months ended September 30, 2009. Year to date, estimated market share in Western Canada has averaged 27% as compared to 23% for the first nine months of 2009. CES’ operating days (refer to “Operational Definitions”) in Western Canada were estimated to be 8,208 for the three month period ended September 30, 2010, an increase of 67% from the 4,924 operating days during the same period last year. CES’s year over year increase in operating days would have been greater but operating days were severely curtailed in September 2010 due to wet weather that forced many operators to postpone work. Year-to-date, operating days in Western Canada were estimated to total 22,259 compared to 13,617 during the same period last year, representing an increase of 63%. Overall industry activity increased approximately 84% from an average monthly rig count of 176 in Q3 2009 to 323 during the Q3 2010 based on CAODC published monthly data for Western Canada. Year–to-date, the CAODC average monthly rig count for Western Canada have averaged 303 as compared to 200 in 2009 representing a year-over-year increase of 51%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $27.6 million for the three months ended September 30, 2010, compared to $15.5 million for the three months ended September 30, 2009, representing an increase of $12.1 million or 78.1%. For the nine month period ended September 30, 2010, revenue from drilling fluids related sales of products and services in Western Canada was $76.3 million compared to $48.4 million for the nine month ended September 30, 2009, representing an increase of $27.9 million or 57.6%. For the three months ended September 30, 2010, as noted above gross revenues were adversely impacted in part by wet weather in September which negatively impacted activity levels.

- For the three months ended September 30, 2010, revenue generated in the US from drilling fluid sales of products and services was $44.3 million as compared to the previous year’s revenue of $0.7 million representing an increase of $43.6 million. Estimated operating days (refer to “Operational Definitions”) in Q3 2010 were 7,634 as compared to 191 operating days during the same period last year. Year-to-date, revenue generated in the US totals $60.4 million as compared to $2.9 million in the previous year representing an increase of $58.7 million. Estimated operating days during the year-to-date period were 12,311 as compared to 532 operating days last year. CES’ estimated United States Market Share (refer to “Operational Definitions”) for the three and nine months ended September 30, 2010 was estimated to be 5.2% and 3.1% respectively.

- During the third quarter, revenue from trucking operations, gross of intercompany eliminations, totalled $4.0 million, an increase of $2.1 million or 111% from the $1.9 million for the three months ended September 30, 2009. For the year-to-date period, revenue from trucking operations totalled $10.6 million as compared to $5.3 million during 2009 representing an increase of $5.3 million or 100%. The respective year-over-year increase is due primarily to the expansion of trucking operations in Saskatchewan undertaken during 2009.

- Clear Environmental Solutions division generated $2.8 million of revenue for the three month period ended September 30, 2010 compared to $1.3 million during the prior year representing an increase of $1.5 million or 115%. Revenue from Clear for the nine month period ended September 30, 2010 totalled $8.3 million as compared to $6.2 million for the same period in 2009, representing an increase of $2.1 million or 349%. Year-over-year, the Clear Environmental division has seen higher overall activity levels and continues to benefit from increased integration with the drilling fluids division, from diversification strategies pursued during 2009 to reduce its exposure to shallow natural gas focused drilling, and general improvement in industry activity levels.

- For the three month period ended September 30, 2010, CES recorded gross margin of $22.7 million or 29% of revenue, compared to gross margin of $6.1 million or 32% of revenue generated in the same period last year. Year-to-date, gross margin has totalled $44.7 million or 29% of revenue as compared to $17.6 million or 28% last year.

- For the three month period ended September 30, 2010, selling, general, and administrative costs were $9.9 million as compared to $4.1 million for the same period in 2009, an increase of $5.8 million. For the nine month period ended September 30, 2010, selling, general, and administrative costs were $21.0 million as compared to $12.0 million for the same period in 2009. Selling, general, and administrative costs are higher on a year-over-year comparison due to a combination of factors including the inclusion of Champion and Fluids Management in Q4 2009 and Q2 2010 respectively and significantly higher activity during 2010 as compared to 2009. Included in selling, general, and administrative expenses during the nine month period ended September 30, 2010, are approximately $0.2 million of one-time expenses relating to the Fluids Management Acquisition by the Company.

- EBITDAC (refer to "Non-GAAP Measures") for the three months ended September 30, 2010 was $13.5 million as compared to $2.0 million for the three months ended September 30, 2009 representing an increase of $11.5 million or 571%. For the nine month period ended September 30, 2010, EBITDAC totalled $24.4 million as compared to $5.6 million in 2009 representing an increase of $18.8 million or 338%.

- CES recorded a net income of $8.1 million for the three month period ended September 30, 2010 as compared to a net income of $0.8 million in the prior year. CES recorded a net income per share of $0.52 ($0.46 diluted) for the three months ended September 30, 2010 versus net income per share of $0.06 (basic and diluted) in 2009. For the nine month period ended September 30, 2010 CES recorded net earnings of $14.6 million, an increase of $12.9 million from the $1.7 million generated for the same period last year. Year-over year basic net income per share was $1.03 ($1.02 diluted) as compared with $0.15 (basic and diluted) per unit for the same period in 2009. The respective year-over-year increases are largely reflective of the increased industry activity in Canada and the Company's increased activity in the US as a result of the US Acquisitions and the organic growth of their platforms.

- CES continued to maintain a strong balance sheet at September 30, 2010 with net working capital of $27.2 million (December 31, 2009 - $11.3 million) representing an increase of $15.9 million. Of the increase in working capital balances $56.6 million related to accounts receivable, $15.8 million related to inventory, $0.6 million related to prepaid expenses, net of a $20.3 million increase in accounts payable and accrued liabilities, and a net draw of $40.9 million on its Operating Facility. The maximum available draw on the $50.0 million facility at September 30, 2010, based on the accounts receivable and inventory balances, was $50.0 million (December 31, 2009 - $20.9 million). Subsequent to September 30, 2010, on October 19, 2010 the Company increased the maximum available draw to $80.0 million. Refer to the Liquidity and Capital Resources section for additional information.

- On July 13, 2010, in conjunction with the Fluids Management Acquisition, 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 $45.0 million. On

September 7, 2010, the 2,905,000 Subscription Receipts were converted to common shares of the Company. Net proceeds after offering expenses and underwriter's commission of $2.7, were $42.4 million. Proceeds of the bought deal financing were used to repay the US$40.0 million Bridge Loan on July 13, 2010 which was incurred in conjunction with the Fluids Management Acquisition.

RESULTS FOR THE PERIODS

	Three Months Ended September 30,			
($000's, except per share amounts)	**2010**	2009	$ Change	% Change
Revenue	**78,398**	19,219	59,179	307.9%
Cost of sales	**55,657**	13,134	42,523	323.8%
Gross margin (1)	**22,741**	6,085	16,656	273.7%
Gross margin percentage of revenue (1)	**29.0%**	31.7%		
Selling, general, and administrative expenses	**9,886**	4,079	5,807	142.4%
Amortization	**2,126**	840	1,286	153.1%
Stock-based compensation	**323**	147	176	119.7%
Interest expense	**537**	82	455	554.9%
Foreign exchange loss (gain)	**(623)**	94	(717)	(762.8%)
Financial derivative loss (gain)	**(12)**	53	(65)	(122.6%)
Loss (gain) on disposal of assets	**(25)**	2	(27)	N/M
Income before taxes	**10,529**	788	9,741	1236.2%
Current income tax expense	**153**	-	153	N/A
Future income tax expense	**2,286**	70	2,216	3165.7%
Net income	**8,090**	718	7,372	1026.7%
Net income per share – basic	***0.52***	*0.06*	*0.46*	766.7%
Net income per share – diluted	***0.46***	*0.06*	*0.40*	666.7%
EBITDAC (1)	**13,453**	2,004	11,449	571.3%

Common Shares Outstanding	**2010**	2009 (2)	% Change
End of period	**17,734,179**	11,378,055	55.9%
Weighted average			
- basic	**15,552,005**	11,224,912	38.5%
- diluted	**17,550,662**	11,297,312	55.4%

	As at		
Financial Position ($000's)	**September 30, 2010**	December 31, 2009	% Change
Net working capital	**27,228**	11,347	140.0%
Total assets	**271,871**	130,699	108.0%
Long-term financial liabilities (3)	**4,928**	2,557	92.7%
Shareholders' equity	**163,226**	92,534	76.4%

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.*

	Nine Months Ended September 30,			
($000's, except per share amounts)	**2010**	2009	$ Change	% Change
Revenue	**154,648**	62,151	92,497	148.8%
Cost of sales	**109,940**	44,599	65,341	146.5%
Gross margin (1)	**44,708**	17,552	27,156	154.7%
Gross margin percentage of revenue (1)	**28.9%**	28.2%		
Selling, general, and administrative expenses	**20,959**	11,981	8,978	74.9%
Amortization	**4,462**	2,600	1,862	71.6%
Stock-based compensation	**793**	703	90	12.8%
Interest expense	**1,009**	274	735	268.2%
Foreign exchange loss (gain)	**(617)**	27	(644)	N/M
Financial derivative loss	**9**	15	(6)	(40.0%)
Loss (gain) on disposal of assets	**(1)**	69	(70)	(101.4%)
Income before taxes	**18,094**	1,883	16,211	860.9%
Current income tax expense	**196**	-	196	N/A
Future income tax expense	**3,303**	225	3,078	1368.0%
Net income	**14,595**	1,658	12,937	780.3%
Net income per share – basic	***1.03***	*0.15*	*0.88*	*586.7%*
Net income per share – diluted	***0.98***	*0.15*	*0.83*	*553.3%*
EBITDAC (1)	**24,355**	5,567	18,788	337.5%

Common Shares Outstanding	**2010**	2009 (2)	% Change
End of period	**17,734,179**	11,378,055	55.9%
Weighted average			
- basic	**14,143,284**	11,163,521	26.7%
- diluted	**14,890,752**	11,183,493	33.1%

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.*

Revenue and Operating Activities

CES generated gross revenue of $78.4 million during the third quarter of 2010, compared to $19.2 million for the three months ended September 30, 2009, an increase of $59.2 million or 308% on a year-over-year basis. For the nine month period ended September 30, 2010, CES generated gross revenue of $154.6 million as compared to $62.2 million for the same period in 2009, representing an increase of $92.4 million or 149%. The respective year-over-year increases are due to a combination of growth through acquisitions (the Champion acquisition was completed in Q4 2009, and the Fluids Management acquisition completed at the end of Q2 2010), combined with the incremental growth that the Company has been able to leverage off of these acquisitions in the US, and higher overall activity levels across CES' other Canadian business units for the current year.

Of the revenue generated during the third quarter of 2010, $27.6 million (2009 - $15.5 million) was generated in the Western Canadian drilling fluids business; $44.3 million (2009 - $0.7 million) was generated in the US drilling fluids business; $2.8 million (2009 - $1.3 Million) was contributed by the Clear environmental division, and $4.0 million, gross of intercompany eliminations, (2009 - $1.9 Million) was generated by trucking operations.

For the nine month period ended September 30, 2010, $76.3 million (2009- $48.4 million) was generated in the Western Canada drilling fluids business; $60.4 million (2009 - $2.9 million) was generated in the US drilling fluids business; $8.3 million (2009 - $6.2 million) was contributed by the Clear environmental division, and $10.6 million, gross of intercompany eliminations, (2009 - $5.3 million) was generated by trucking operations.

The active CAODC monthly rig count in Western Canada averaged 323 for the three months ended September 30, 2010 based on CAODC published monthly data for Western Canada representing a 84% increase from the average rig count of 176 during the third quarter of 2009. Year-to-date, the CAODC, average monthly rig count for Western Canada has averaged 303 compared to 200 in 2009, representing a year-over-year increase of 51%.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Canada	**8,208**	4,924	**22,259**	13,617
USA	**7,634**	191	**12,311**	532
Total Operating Days	**15,842**	5,115	**34,570**	14,149

CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada was 28% for the three months ended September 30, 2010 which was comparable to last year's 27% for the three months ended September 30, 2009. Year-to-date, CES' estimated market share in Western Canada averaged 27% compared to 23% for the same period in 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.

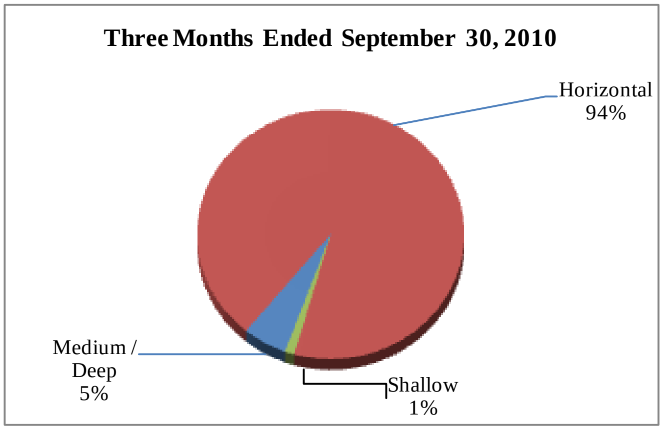
CES's year over year increase in Canadian operating days would have been greater but operating days were severely curtailed in September 2010 due to wet weather that forced many operators to postpone work. Canadian operating days were estimated to have been 600 lower during Q3 2010 as a result.

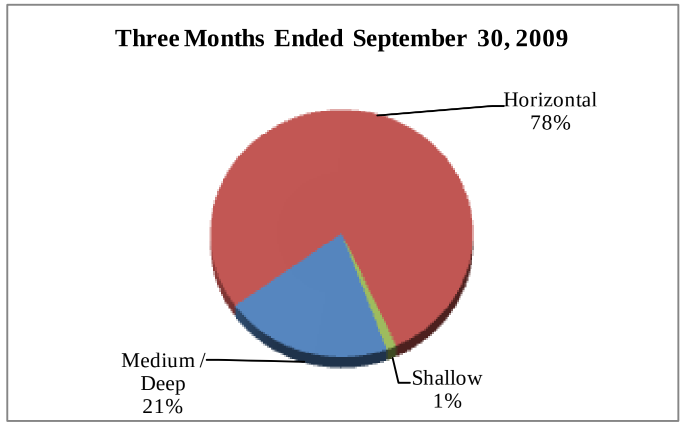
In the United States, CES' estimated United States Market Share (refer to "Operational Definitions") for the three and nine months ended September 30, 2010 was estimated to be 5.2% and 3.1% respectively.

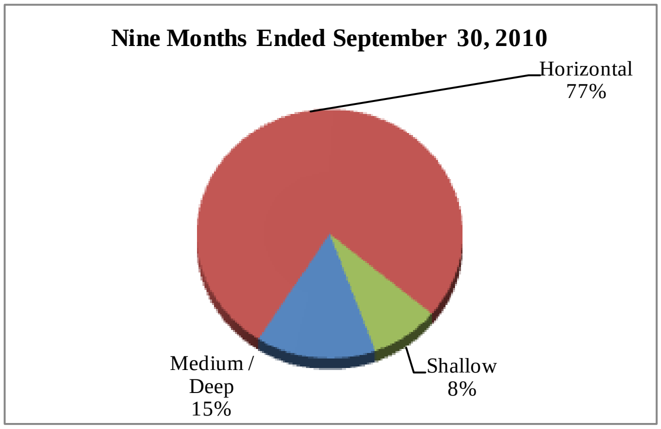
For the three months ended September 30, 2010, revenue generated in the US from drilling fluid sales of products and services was $44.3 million as compared to the previous year's revenue of $0.7 million representing an increase of $43.6 million. Estimated operating days (refer to "Operational Definitions") in Q3 2010 were 7,634 as compared to 191 operating days during the same period last year. Year-to-date, revenue generated in the US totals $60.4 million as compared to $2.9 million in the previous year representing an increase of $58.7 million. Estimated operating days during the year-to-date period were 12,311 as compared to 532 operating days last year. CES' estimated United States Market Share (refer to "Operational Definitions") for the three and nine months ended September 30, 2010 was estimated to be 5.2% and 3.1% respectively.

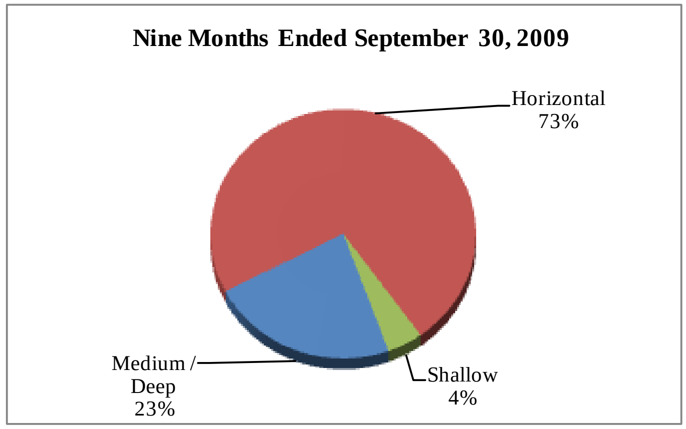
For the three and nine month periods ended September 30, 2010, the top five customers of CES accounted for approximately 33% and 25% respectively of total revenue (2009 – 38% and 28% respectively). During 2009, a large independent exploration and production company, accounted for approximately 8% and 14% CES' respective three and nine month revenue. For the three months ended September 30, 2010, one customer accounted for 15% of total revenue.

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 September 30, 2010, medium and deep drilling represented 5% (2009 – 21%) of drilling fluids revenue and horizontal wells represented 94% (2009 – 78%) of drilling fluids revenue. For the nine month period ending September 30, 2010, medium drilling represented 10 % (2009 – 23%) of drilling fluid revenue and horizontal wells represented 86% (2009 -73%). 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.). Generally, labour costs have less of an impact on CES' margins than other cost elements such as product costs. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

CES achieved gross margin of $22.7 million or 29.0% of revenue for the three month period ended September 30, 2010 as compared to $6.1 million or 31.7% of revenue in 2009. Year-to-date, CES achieved a gross margin of $44.7 million or 28.9% which was consistent with last year's margin of $17.6 million or 28.2%.

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

SG&A for the three month period ended September 30, 2010 was $9.9 million as compared to $4.1 million for the same period in 2009 representing an increase of $5.8 million or 142.4% year-over-year. For the nine month period ended September 30, 2009, SG&A costs were $21.0 million as compared to $12.0 million for the same period in 2009. Selling, general, and administrative costs are higher on a year-over-year comparison due to a combination of factors including the inclusion of Champion and Fluids Management general and administrative costs during the current year, higher staff levels and the associated compensation costs, and higher activity during 2010 as compared to 2009. Included in selling, general, and administrative expenses during the nine month period ended September 30, 2010 are approximately $0.2 million of one-time expenses relating to the Fluids Management Acquisition by the Company. Across all of its divisions, CES' office headcount totalled 135 at September 30, 2010 as compared to 120 as at June 30, 2010.

Amortization
Amortization of property, equipment, and intangibles totalled $2.1 million and $4.5 million respectively for the three and nine month period ended September 30, 2010 as compared to $0.8 million and $2.6 million respectively during 2009. The year-over-year increase in amortization expenses is primarily attributable to the expanded operations of CES compared to the previous year including additional trucks and trailers for the trucking division and the increase in amortization of fixed and intangible assets relating to the Company's US Acquisitions.

Stock-based Compensation
Stock-based compensation was $0.3 million for the three months ended September 30, 2010 as compared to $0.1 million during the same period last year. For the nine month period ended September 30, 2010, stock-based compensation totalled $0.8 million as compared to $0.7 million during the same period last year.

Interest Expense
CES had interest expense of $0.5 million for the three months ended September 30, 2010 compared to $0.1 million for Q3 2009. For the nine month period ended September 30, 2010, interest expense totalled $1.0 million as compared to $0.3 million for the same period in 2009. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various long-term debt, operating loan facility and lease facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans, the committed facilities, capitalized lease facilities, and the operating loan facility. Included in interest expenses is interest charges of $0.1 million relating to the Bridge Loan facility used to finance the Fluids Management Acquisition which was repaid on July 13, 2010.

Foreign Exchange Loss
For the nine months ended September 30, 2010, CES recorded a net foreign exchange gain of $0.6 million primarily related to foreign exchange gains on the Company's US denominated cash balances and on the repayment of the Bridge Loan financing.

Effective January 1, 2010, the Company changed the classification of its US 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 US 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 and nine month periods ended September 30, 2010, CES recorded a derivative gain of $0.01 million and loss $0.01 million respectively (2009 – loss of $0.05 million and $0.02 million respectively) relating to its foreign currency derivative contracts. As of September 30, 2010, the Company had a financial derivative asset of $0.01 million relating to its outstanding derivative contracts.

Current and Future Income Taxes
The Conversion, converted CES from a limited partnership structure to a corporate structure. As a result, CES is subject to federal and provincial income taxes in Canada and federal and state income taxes in the United States to the extent that they are not sheltered by existing tax pools. Previously, the income earned directly by the Partnership in Canada 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.

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 million 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.

During the three and nine months ended September 30, 2010, the Company recorded future income tax expense of $2.3 million and $3.3 million respectively compared to $0.1 million and $0.2 million respectively in 2009. The future income tax expense during the current year relates to a combination of changes in the temporary differences as well as the estimated use of the Company's non-capital tax loss pools in both Canada and the United States. During the nine months ended September 30, 2010, the Company recorded current income tax expense of $0.2 million relating to taxable income in states in which the Company does not have loss carry forwards.

Net Working Capital

At September 30, 2010, the Company had net working capital of $27.2 million (December 31, 2009 - $11.3 million) representing an increase of $15.9 million. Of the increase in working capital balances at September 30, 2010 from December 31, 2009, $56.6 million related to accounts receivable, $15.8 million related to inventory, $0.6 million related to prepaid expenses, net of a $20.3 million increase in accounts payable and accrued liabilities, and a net draw of $40.9 million on its operating facility. The maximum available draw on the $50.0 million facility at September 30, 2010, based on the accounts receivable and inventory balances, was $50.0 million (December 31, 2009 - $20.9 million). Subsequent to September 30, 2010, the Company increased the maximum available draw to $80.0 million. Refer to the Liquidity and Capital Resources section for additional information.

Total Current Assets

Total current assets of CES increased from $45.7 million at December 31, 2009 to $118.8 million at September 30, 2010. The increase is primarily due to an increase in accounts receivable balances of $56.6 million and an increase of $15.8 million in inventory balances. The increase reflects both higher activity levels in Q3 2010 as well as the Fluids Management Acquisition at June 30, 2010.

Total Long-Term Assets

Total long-term assets of CES increased by $68.1 million at September 30, 2010 to $153.1 million from $85.0 million at December 31, 2009. Of this increase, $56.9 million related to the Fluids Management Acquisition on June 30, 2010 including $8.2 million of fixed assets and $48.7 million related to the value allocated to customer relations and goodwill.

Bridge Loan

In conjunction with the Fluids Management Acquisition, the Company arranged a US$40.0 million bridge 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 on July 13, 2010. On July 13, 2010, the Bridge Loan was fully repaid. Interest paid on the Bridge Loan totalled $0.1 million.

Long-Term Financial Liabilities

CES had long-term financial liabilities totalling $4.9 million at September 30, 2010 compared to $2.6 million at December 31, 2009, for an increase of $2.3 million during the year. The majority of this increase occurred in Q1 2010 with the $2.0 million draw on the Company's $2.0 million non-revolving loan facility and a $2.1 million sales and lease back transaction. In addition, the Company assumed $0.07 million of long-term lease liabilities in conjunction with its acquisition of Fluids Management. During the three month period ended September 30, 2010, the Company made long-term scheduled debt and lease repayments totalling $0.6 million on its capital leases, vehicle debt, and credit facilities. At September 30, 2010, long-term financial liabilities were comprised of vehicle financing loans totalling $1.6 million and committed facilities totalling $3.7 million, net of the current portion of long-term debt of $1.7 million. At September 30, 2010, the Company had lease liabilities of $2.2 million, net of the current portion of $1.0 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, third, and third anniversaries of closing of the Champion acquisition.

Shareholders' Equity

Shareholders' equity increased from $92.5 million at December 31, 2009 to $163.2 million at September 30, 2010. The year-to-date increase in shareholders' equity during the period is primarily attributable to $14.6 million in net earnings of CES, $21.5 million relating to the deemed accounting value attributed to the 1,289,370 common shares issued by the Company pursuant to the Fluids Management Acquisition., $0.8 million relating to stock-based compensation expense, and proceeds of $1.6 million relating to the exercise of stock options, and $42.4 million in net proceeds from the Company's July 13, 2010 private placement of Subscription Receipts. This is offset by $9.0 million of dividends declared by the Company during the year. The 1,289,370 common shares issued in relation to the Fluids Management Acquisition 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, third, and third anniversaries of the closing of the Fluids Management acquisition.

SEGMENTED RESULTS

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

	Three Months Ended September 30, 2010				
Segmented Information ($000's)	**Drilling Fluids**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**71,959**	**4,003**	**2,814**	**(378)**	**78,398**
Cost of sales	**51,910**	**2,320**	**1,805**	**(378)**	**55,657**
Gross margin	**20,049**	**1,683**	**1,009**	**-**	**22,741**
Income before taxes	**9,263**	**999**	**267**	**-**	**10,529**
EBITDAC [(1)]	**11,443**	**1,553**	**457**	**-**	**13,453**

	Three Months Ended September 30, 2009				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	16,211	1,866	1,329	(187)	19,219
Cost of sales	11,285	1,237	799	(187)	13,134
Gross margin	4,926	629	530	-	6,085
Income before taxes	738	144	(94)	-	788
EBITDAC [(1)]	1,479	435	90	-	2,004

	Nine Months Ended September 30, 2010				
Segmented Information ($000's)	**Drilling Fluids**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**136,712**	**10,554**	**8,268**	**(886)**	**154,648**
Cost of sales	**98,989**	**6,600**	**5,237**	**(886)**	**109,940**
Gross margin	**37,723**	**3,954**	**3,031**	**-**	**44,708**
Income before taxes	**15,559**	**1,814**	**721**	**-**	**18,094**
EBITDAC [(1)]	**19,947**	**3,125**	**1,283**	**-**	**24,355**

	Nine Months Ended September 30, 2009				
Segmented Information ($000's)	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	51,240	5,304	6,158	(551)	62,151
Cost of sales	37,391	3,900	3,859	(551)	44,599
Gross margin	13,849	1,404	2,299	-	17,552
Income before taxes	1,397	221	265	-	1,883
EBITDAC [(1)]	3,867	975	725	-	5,567

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

Drilling Fluids Segment

For the three months ended September 30, 2010, revenue from the Drilling Fluids segment totalled $72.0 million compared to $16.2 million for the three months ended September 30, 2009 representing an increase of $55.8 million or 344%. Year-to-date revenue from the Drilling Fluids Segment totalled $136.7 million as compared to $51.2 million last year representing an increase of $85.5 million or 167% on a year over year basis.

CES' estimated Canadian Market Share (refer to "Operational Definitions") remained consistent with last year at 28% for the three months ended September 30, 2010, up slightly from 27% for the three months ended September 30, 2009. Year to date, estimated market share in Western Canada has averaged 27% as compared to 23% in during 2009. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 8,208 for the three month period ended September 30, 2010, an increase of 67% from the 4,924 operating days during the same period last year. CES's year over year increase in operating days would have been greater but operating days were severely curtailed in September 2010 due to wet weather that forced many operators to postpone work. Year-to-date, operating days in Western Canada were estimated to total 22,259 compared to 13,617 during the same period last year, representing an increase of 63%. Overall industry activity increased approximately 84% from an average monthly rig count of 176 in Q3 2009 to 323 during the Q3 2010 based on CAODC published monthly data for Western Canada. Year–to-date, the CAODC average monthly rig count for Western Canada has averaged 303 as compared to 200 in 2009 representing a year-over-year increase of 51%.

In the United States, estimated operating days during the year-to-date period were 12,311 as compared to 532 operating days last year. The respective year-over-year increases in activity and revenue in the US in 2010 compared to 2009 are primarily due to the two accretive US Acquisitions and the organic growth that the Company has been able to generate off of these platforms. CES' estimated United States Market Share (refer to "Operational Definitions") for the three and nine months ended September 30, 2010 was estimated to be 5.2% and 3.1% respectively.

Gross margin for the Drilling Fluids segment was $20.0 million or 28% for the three months ended September 30, 2010 as compared to $4.9 million or 30% during the prior year. Year-to-date, the Drilling Fluids segment achieved a gross margin of $37.7 million or 28% compared to $13.8 million or 27% last year.

Trucking Segment

Revenue from the Trucking segment, gross of intercompany eliminations, was $4.0 million for the three month period ended

September 30, 2010 as compared to $1.9 million during last year representing an increase of $2.1 million or 115%. Year-to-date, the Trucking segment had total revenue, gross of intercompany eliminations, of $10.6 million as compared to $5.3 million during the same period in 2009 representing an increase of $5.3 million or 100%. Year-to-date, gross margin for the Trucking segment was $4.0 million or 38% of revenue compared to last year's gross margin of $1.4 million or 27%. Year-over-year, trucking margins have improved in part as a result of increased economies of scale achieved in the Carlyle, Saskatchewan trucking operations with the expansion of its operations through 2009.

Environmental Services Segment

Revenue from the Environmental Services segment was $2.8 million for the three month period ended September 30, 2010 as compared to $1.3 million generated for the same period of 2009 representing an increase of $1.5 million or 112%. Year-to-date revenue for the Environmental Services totalled $8.3 million as compared to $6.2 million in 2009. During the third quarter, gross margin from the Environmental Services segment was $1.0 million or 36% of revenue as compared to $0.5 million or 40% for the same period during 2009. Year-to-date, the gross margin from the Environmental Services Segment averaged 37% which was in line with last year at 37% in 2009. During 2009, the Environmental Services segment was negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. However, the Environmental Services segment 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.

QUARTERLY FINANCIAL SUMMARY

($000's, except per share amounts)	Three Months Ended			
	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009
Revenue	**78,398**	27,212	49,038	27,303
Gross margin [(1)]	**22,741**	6,500	15,467	9,160
Net income (loss) [(4)]	**8,090**	(960)	7,465	5,857
per share – basic [(2)]	***0.52***	*(0.07)*	*0.56*	*0.51*
per share – diluted [(2)]	***0.51***	*(0.07)*	*0.55*	*0.50*
EBITDAC [(1)(4)]	**13,453**	1,378	9,532	4,373
per share – basic [(2)]	***0.87***	*0.10*	*0.71*	*0.38*
per share – diluted [(2)]	***0.85***	*0.10*	*0.71*	*0.37*
Funds flow from operations [(1)]	**12,763**	1,069	9,326	4,169
per share – basic [(2)]	***0.82***	*0.08*	*0.70*	*0.36*
per share – diluted [(2)]	***0.81***	*0.08*	*0.69*	*0.35*
Dividends declared	**3,786**	2,798	2,414	2,787
per share [(2)]	***0.24***	*0.2000*	*0.1800*	*0.2376*
Shares Outstanding [(2)]				
End of period	**17,734,179**	14,764,179	13,469,809	12,417,573
Weighted average – basic	**15,552,005**	13,486,011	13,367,833	11,576,203
Weighted average – diluted	**15,782,401**	13,486,011	13,519,021	11,765,132

($000's, except per share amounts)	Three Months Ended			
	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008
Revenue	19,219	12,634	30,298	41,385
Gross margin [(1)]	6,085	3,422	8,045	11,980
Net income (loss)	718	(1,214)	2,154	4,715
per share– basic and diluted [(2)]	*0.06*	*(0.11)*	*0.19*	*0.42*
EBITDAC [(1)(3)]	2,004	(45)	3,608	6,282
per share – basic and diluted [(2)]	*0.18*	-	*0.32*	*0.56*
Funds flow from operations [(1)(3)]	1,922	(94)	3,465	6,054
per share – basic and diluted [(2)]	*0.17*	*(0.01)*	*0.31*	*0.57*
Dividends declared	2,683	2,647	2,642	2,653
per share	*0.2376*	*0.2376*	*0.2376*	*0.2376*
Shares Outstanding [(2)]				
End of period	11,378,055	11,140,301	11,119,801	11,169,801
Weighted average – basic	11,224,912	11,140,301	11,124,245	11,167,794
Weighted average – diluted	11,297,312	11,140,301	11,144,745	11,167,794

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 third quarter until equipment is moved for witner 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. With the expansion into the US through the US Acquisitions, it is expected that the overall seasonality of the Company's operations will be less pronounced in future periods.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, the Company had net working capital of $27.2 million (December 31, 2009 - $11.3 million) representing an increase of $15.9 million.

At September 30, 2010, CES had a net draw of $40.9 million on its revolving demand operating facility ("Operating Facility") (December 31, 2009 - $8.8 million). The maximum available draw on the $50.0 million Operating Facility at September 30, 2010, based on the accounts receivable and inventory balances, was $50.0 million (December 31, 2009 - $20.9 million). Subsequent to September 30, 2010, on October 19, 2010 the Company increased the maximum available draw to $80.0 million.

The maximum draw available under the Operating Facility is subject to the value of certain accounts receivable and inventory balances. The Operating 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. In conjunction with the increased Operating Facility, the covenants were slightly amended as detailed below.

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

1. Non-revolving committed loan facility 1. As of September 30, 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. Non-revolving committed loan facility 2. As of September 30, 2010, there was $0.5 million outstanding (December 31, 2009 - $0.7 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%.
3. Non-revolving demand loan facility 3. As of September 30, 2010, there was $1.7 million outstanding (December 31, 2009 - $Nil million) on the loan. The loan has a remaining term of four years (March 2014) with fixed monthly principal payments of $41,667 plus interest at the bank's prime rate of interest plus 1.40%.
4. Bank Leasing Facility of up to $5.0 million of which $2.1 million has been drawn on to date. As of September 30, 2010, the Company had an outstanding balance owing on these lease facilities of $1.8 million. The Company's leases are for terms ranging from March 2013 to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75% resulting in monthly payments of approximately $0.06 million.

In conjunction with the Fluids Management Acquisition, the Company arranged a US$40 million bridge 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 Offering on July 13, 2010. On July 13, 2010, the Bridge Loan was fully repaid. Total interest paid on the Bridge Loan was $0.1 million.

The Company's debt and lease facilities, including the Operating Facility, and the 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.

In conjunction with the increase in the Operating Facility subsequent to September 30, 2010, the financial covenants were amended. These facilities now impose the following financial covenants on CES:

- The quarterly debt to tangible net worth must not exceed 2.50 to 1.00. The ratio of debt to tangible net worth is calculated as total liabilities per the consolidated financial statements, less future income taxes, less any indebtedness that has been subordinated and postponed to the bank, and excluding the Bridge Loan divided by the total of stated capital, contributed surplus, retained earnings, and any indebtedness that has been subordinated and postponed to the bank less any intangible asset less any future income tax assets.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the consolidated financial statements divided by current liabilities per the consolidated financial statements excluding the current portion of long-term debt and capital lease obligations and any indebtedness that has been subordinated and postponed to the bank.
- The ratio of Funded Debt to Trailing EBITDA must not exceed 3.00 to 1.00.
- The Company shall not make any dividend payments to shareholders upon the occurrence and during the continuance of or the making of which would give rise to or cause i) an Event of Default or ii) any event or condition which, with the giving of notice, lapse of time or upon declaration or determination being made (or any combination thereof), would constitute an Event of Default.

As at September 30, 2010, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 12.75%, with a weighted average rate of 6.16%, and have termination dates ranging from February 2011 to August 2013. At September 30, 2010, outstanding vehicle loans totalled $1.6 million which was comparable to the $1.5 million at December 31, 2009.

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

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. The volatility in the financial markets since mid-2008 has 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 in terms of historical norms. Continued weak natural gas prices may negatively impact the demand for the Company's products and services in the future. As a result, there has been a greater emphasis on evaluating credit capacity, credit counterparties, and liquidity by CES to ensure its ability to be able to meet its ongoing commitments and obligations.

Cash Flows From Operating Activities

For the three months ended September 30, 2010, cash flow from operating activities was an outflow of $20.8 million compared to $0.8 million during the prior year. Funds flow from operations (Refer to "Non-GAAP Measures" for further detail), which takes into consideration changes in non-cash operating working capital, for the three months ended September 30, 2010 was a $12.8 million inflow as compared to a $1.9 million during 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2010**	2009	**2010**	2009
Cash provided by (used in) operating activities	**(20,813)**	(817)	**(19,590)**	21,478
Adjust for:				
Change in non-cash operating working capital	**33,576**	2,739	**42,740**	(16,185)
Funds flow from operations	**12,763**	1,922	**23,150**	5,293

Cash Flows From Investing Activities
For the nine months ended September 30, 2010, cash flow from investing activities totalled a cash outflow of $50.5 million compared to a cash outflow of $2.3 million during 2009. During the three months ended September 30, 2010, net cash outflows from investing activities totalled $1.9 million compared to $1.4 million for the three month end September 30, 2009.

For the three months ended September 30, 2010, $2.5 million was spent on property and equipment (net of $0.4 million in vehicle financing and leases). CES had $0.4 million of additions related to maintenance capital and $2.5 million of additions related to expansion capital gross of vehicle financing. Notable additions during the three month period ended September 30, 2010 included $0.5 million of vehicles, $0.6 million in new equipment, and $1.3 million towards construction of a the Company's PureChem chemical blending facility in Carlyle, Saskatchewan. Details of investment made in property and equipment are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2010**	2009	**2010**	2009
Expansion capital	**2,516**	1,425	**4,949**	2,876
Maintenance capital	**430**	37	**1,486**	44
Total investment in property and equipment	**2,946**	1,462	**6,435**	2,920
Vehicle financing and leases	**(415)**	-	**(1,036)**	(102)
Capital expenditures	**2,531**	1,462	**5,399**	2,818
Change in non-cash investing working capital	**534**	(32)	**913**	(144)
Cash used for investment in property and equipment	**3,065**	1,430	**6,312**	2,674

As part of the Fluids Management Acquisition, the Company has also entered into an agreement to purchase selected real estate assets for total consideration of US$1.8 million subject to certain conditions. Subsequent to September 30, 2010, the Company completed the acquisition of US$1.6 million of these real estate assets.

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 nine month period ended September 30, 2010, cash flow from financing activities was a cash inflow of $70.0 million compared to a cash outflow of $19.2 million during 2009. During the three months ended September 30, 2010, cash flow from financing activities totalled a cash inflow of $22.7 million compared to $0.1 million during the comparative prior year period. For the three month period ended September 30, 2010, CES repaid the US$40.0 million Bridge Loan facility, repaid $0.7 million of its long-term debt balances, paid dividends to shareholders totalling $3.5 million, drew $26.1 million in bank indebtedness, and completed the private placement of Subscription Receipts for net proceeds of $42.4 million.

Dividend Policy
On June 16, 2010, the Company announced a $0.02 per share or 33.3% increase in its monthly to dividend to a total monthly dividend of $0.08 per share. During the third quarter, CES declared monthly dividends of $0.08 per share for a total of $0.24 per share for the quarter. This compares to monthly distributions of $0.0792 per unit made for a total of $0.2376 per unit during the comparable quarter in 2009 under the pre-Conversion distribution policy.

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 after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a large proportion of cash flow from operations being paid out as a dividend or distribution as the long-term capital investments required and maintenance capital expenditures required for CES to execute its business plan are not significant.

Subsequent to September 30, 2010, CES declared a monthly dividend of $0.08 per common share to shareholders of record at October 29, 2010 for the month of October 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 Q1 2010, 791,776 common shares were issued pursuant to the forced conversion of the Debenture. Additionally, as part of the Fluids Management Acquisition, a total of 1,289,370 common shares of the Company were issued.

On July 13, 2010, in conjunction with the Fluids Management Acquisition, 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 $45.0 million. Net proceeds after offering expenses and underwriter's commission were $42.4 million. On September 7, 2010, the Subscription Receipts were converted to common shares of the Company.

For the nine months ended September 30, 2010, an aggregate of 330,460 common shares were issued pursuant to the exercise of options, and upon the termination of the Distribution Rights Plan. As of September 30, 2010, CES had a total of 17,734,179 common shares outstanding. As of the date of this MD&A, CES had a total of 17,744,179 common shares outstanding.

Stock-based Compensation
As at September 30, 2010, a total of 1,773,418 common shares were reserved for issuance under the Company's Option Plan and Share Rights Incentive Plan of which 848,918 remained available for grant.

a) Option Plan, formerly referred to as the Partnership Unit Option Plan
At September 30, 2010, a total of 474,000 (December 31, 2009 - 682,500) Options were outstanding at a weighted average exercise price of $9.03. As at September 30, 2010 a total of 381,166 Options were exercisable at a weighted average price of $9.38. As of the date of this MD&A, there were 464,000 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, third, 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 September 30, 2010, a total of 450,500 Share Rights were outstanding (December 31, 2009 – Nil) at a weighted average exercise price of $14.42 (assuming all SRIP's are exercised at their respective original exercise price) of which Nil were exercisable.

Subsequent to September 30, 2010, a grant of 736,500 Share Rights was approved by the Company's Board of Directors to selected directors, officers, and employees of the Company at an exercise price of $18.50 per share of which 279,000 Share Rights were granted to directors and officers of the Company. As of the date of this MD&A, an aggregate of 1,187,700 Share Rights remaining outstanding, none of which have vested.

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 September 30, 2010, CES had the following additional commitments not included as liabilities on its balance sheet:

$000's	**3 Months - 2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Office and facility rent	282	1,024	676	225	-	**2,207**
Vehicle operating leases	31	43	23	-	-	**97**
Total	313	1,067	699	225	-	**2,304**

Payments denominated in foreign currencies have been translated at the respective September 30, 2010 exchange rate

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 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 third 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 on May 3, 2010 the Deferred Consideration (US$2.0 million) was paid by the Company.

In conjunction with the Fluids Management Acquisition, the Company has $5.1 million (US$5.0 million) in additional deferred acquisition consideration payable in cash upon the Fluids Management division achieving an EBITDA target of US$9.5 million for the twelve month period post close. The Company has recognized a current liability on its balance sheet for the anticipated payment.

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 and nine months ended September 30, 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 expenses for the period.

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

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 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 Fluids Management Acquisition 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's financial statements.

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, is currently in the process of reviewing and assessing the results of the second phase, and will undertake implementation in Q4 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 there will not be significant changes required to business processes, financial systems, and IT systems in order to complete the transition to IFRS. These minor changes are expected to be implemented in calendar 2010.

There are a number of areas where differences between Canadian GAAP and IFRS exist, which may result in changes to CES' accounting policies and financial reporting as a result of the transition to IFRS. CES has focused on the key areas described below where the transition could have a material impact on its financial statements. Management is still determining the full effects of the transition, and at this stage, has not finalized all of the specific calculations quantifying the impact of the changes on the financial statements. The following comments should not be regarded as a complete list of changes that will result from the transition to IFRS and are intended only to highlight those areas that CES believes may be the most significant.

The first area of significance potentially impacting CES' results under IFRS relates to how goodwill is tested for impairment. Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying value of goodwill at the operating segment level compared to its fair value. If the carrying value of goodwill is greater than its corresponding fair value, an impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. Under IFRS, goodwill is tested for impairment at the cash generating unit ("CGU") level. If the carrying value of each CGU exceeds the greater of fair value less cost to sell or value in use, an impairment loss is recognized in the CGU. CES is in the process of finalizing its CGU's and as of yet, the Company has not finalized the impairment tests under IFRS, and therefore has not determined the effect on CES' financial statements. However, as a general rule, impairment is more likely to be recognized under IFRS than Canadian GAAP due to the IFRS requirement to measure impairment at a more granular CGU level and to use discounted future cash flows in the impairment analysis.

The second area of significance potentially impacting CES relates to the valuation and componentization of Property and Equipment. In contrast to Canadian GAAP, IFRS permits items of property and equipment to be measured either at fair value or amortized cost. In this regard, CES expects to continue to reflect property and equipment at its historic amortized cost. Further, Canadian GAAP does not require that asset parts be depreciated separately whereas IFRS requires that significant asset parts (i.e. components) are recognized and depreciated separately. At this stage CES expects the componentization under IFRS to be very similar to how the assets have been componentized by the Company under Canadian GAAP. Although CES has not finalized the accounting policy to be adopted under IFRS, at this stage, based on the expected choices, the impact on CES' financial statements of the IFRS adoption is not expected to be material.

The third area of significance impacting CES relates to the recognition of share based compensation and payments. When recognizing share based payment expenses, Canadian GAAP and IFRS differ in the timing and, potentially, the amount of expense recognition. At this stage, we have not finalized the calculation of the share based payment adjustment and effect on CES' financial statements. The Company does not anticipate this impact to be material.

As a general rule, adopting companies are required to apply IFRS retrospectively, with prior period adjustments made against opening retained earnings on the opening balance sheet. However, IFRS 1 provides a number of exemptions from full retrospective application of IFRS. Based on management's analysis of the various accounting policy choices available, the IFRS 1 elections most relevant to CES are as follows:

- Business Combinations – Management has elected not to restate any business combinations that have occurred prior to January 1, 2010. CES has, however, aligned itself to comply with IFRS by early adopting Business Combinations effective January 1, 2010, which substantially converged with the equivalent IFRS standards for business combinations. CES has taken this step in order to minimize any differences between Canadian GAAP and IFRS for business combinations occurring in 2010.
- Deemed Cost – Management expects that it will not use fair value but historic amortized cost at January 1, 2010 as the deemed cost in respect of CES' property and equipment.
- Share Based Payments – Management has elected not to restate the stock-based payment expense for share based payments granted and vested prior to January 1, 2010. Further, CES changed its accounting policy with respect to stock-based compensation, effective January 1, 2010, for new issuances under the Share Rights Incentive Plan to comply with the IFRS guidelines under IFRS 2.

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 specific to the adoption of IFRS. 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 fourth 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 the first nine months of 2010 and CES has experienced an increase in the demand for its services over the previous year.

The oil and natural gas drilling season in Canada 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 US Acquisitions 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 the Mid-continent and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, and reviewing and actively following up on older accounts. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if low commodity prices and 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 and 2010, changes were announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

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

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

CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships, were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain 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. Beginning in the fourth quarter of 2009, drilling activity levels began to rebound in both the WCSB and the US. In the WCSB, CES has experienced robust levels of activity in the first nine months of 2010 and, over the same period, CES' activity in the US also increased as a result of the US Acquisitions, organic growth, and a general increase in drilling activity. Despite the volatile nature of commodity prices coupled with the tepid global economic recovery, current expectations are for industry activity levels to remain robust throughout Q4 2010 and into Q1 2011.

The Champion and Fluids Management acquisitions provide CES with significant growth opportunities. CES has a wide footprint in the majority of the key basins of activity in the US. The Marcellus shale play in the Northeast US has particular promise for near-term market gains and is a focus of expansion efforts. CES has been able to successfully leverage off of the acquired platforms and expand market share further in the US. CES' strategy still remains to utilize our patented and proprietary technologies and local personnel to increase market share in the US.

Despite some uncertainty facing the North American drilling market, CES' exposure to the key resource plays and the growth in the number of horizontal wells being drilled bodes well for future growth. A larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times and costs and our unique products like Seal-AX™/PolarBond, ABS40™ 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 drilling fluids operations.

The EQUAL Transport division experienced significant growth, 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.

In Q2 2010, CES announced the establishment of the PureChem Services division ("PureChem") which will manufacture and sell both drilling fluid products and production chemicals. The PureChem manufacturing facility is being constructed in Carlyle, Saskatchewan on existing CES land and is expected to commence operations in late Q4 2010. PureChem will be a complimentary business to both CES' drilling fluids business and EQUAL's production hauling businesses in Canada. The Fluids Management division also produces and blends its own set of proprietary drilling fluid products which will provide synergies and experience to PureChem going forward.

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 nine months of 2010. At this time, activity levels are expected to remain healthy through to spring break-up in Q1 2011.

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

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 16, 2010 Annual General and Special Meeting of shareholders 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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John M. Hooks[2]

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Rodney L. Carpenter

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[2] Member of the Governance and Compensation Committee

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Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

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Corporate Secretary

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