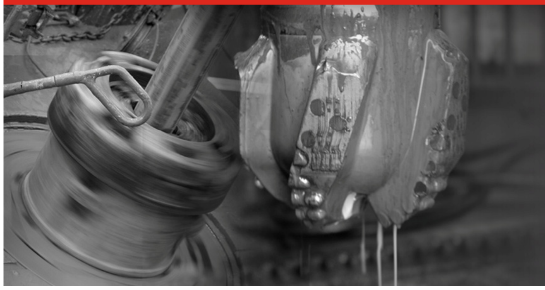


Q3

Three and nine months ended September 30, 2012

as at November 7, 2012

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 condensed 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, 2012, and the audited annual consolidated financial statements and notes thereto for the years ended December 31, 2011 and 2010, and CES' 2011 Annual Information Form. The information contained in this MD&A was prepared up to and including November 7, 2012, 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, production chemical, 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; 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, 2011, 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.

BUSINESS OF CES

CES' business is focused on the design and delivery of technically advanced fluids for the oil and gas industry. CES' business model requires limited re-investment capital to grow. As a result, CES has been able to capitalize on the growing market demand for drilling and production fluids in North America while generating free cash flow. CES returns much of this free cash flow back to shareholders through its monthly dividend.

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, liquids rich 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 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.

PureChem Services ("PureChem"), CES' drilling fluid and production chemical manufacturing division, designs, manufactures, and sells specialty drilling fluids to CES, as well as stimulation and production chemicals to operators. The PureChem production facility is strategically located in Carlyle, Saskatchewan.

CES' corporate head office and its 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") head office is located in Houston, Texas and conducts operations in thirteen states with stock point facilities located in Oklahoma, Texas, Louisiana, Pennsylvania, West Virginia, Colorado, North Dakota, New Mexico, and Utah.

THREE-FOR-ONE STOCK SPLIT

On June 30, 2011, the Company's shareholders approved a three-for-one split of CES' outstanding common shares (the "Stock Split"). The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 13, 2011. The Company's common shares commenced trading on a post-split basis on July 11, 2011, on the Toronto Stock Exchange. All share data and stock-based compensation plans presented herein have been retroactively adjusted to give effect to the stock split.

NON-GAAP MEASURES

The accompanying interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS or previous 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, depreciation and amortization, gains and 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	**2012**	2011	**2012**	2011
Net income	**7,952**	9,501	**25,022**	26,822
Add back (deduct):				
Depreciation in cost of sales	**1,901**	1,500	**5,501**	4,288
Depreciation and amortization in general and administrative expenses	**947**	875	**2,798**	2,617
Interest expense, net of interest income	**729**	534	**2,699**	1,960
Current income tax expense	**3,563**	631	**12,671**	4,420
Deferred income tax expense	**650**	4,118	**2,004**	9,338
Stock-based compensation	**1,778**	798	**4,584**	2,295
Unrealized foreign exchange (gain) loss	**(220)**	82	**(350)**	(194)
Unrealized derivative loss	**31**	577	**73**	450
Gain on disposal of assets	**(5)**	(15)	**(125)**	(101)
EBITDAC	**17,326**	18,601	**54,877**	51,895

Distributable earnings – means Funds flow from operations less maintenance capital. See the definition of Funds flow from operations below and the definition of maintenance capital under "Operational Definitions". Distributable earnings is a measure used by management and investors to analyze the amount of funds available to distribute to shareholders before consideration of funds required for growth purposes. Refer to "Liquidity and Capital Resources" for the calculation of Distributable earnings.

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 flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. 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	**2012**	2011	**2012**	2011
Cash provided by operating activities	**16,789**	(802)	**49,605**	10,730
Adjust for:				
Change in non-cash operating working capital	**(3,716)**	18,117	**(9,974)**	35,228
Funds flow from operations	**13,073**	17,315	**39,631**	45,958

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2012**	2011	**2012**	2011
Gross margin	**27,885**	30,520	**88,766**	86,115
as a percentage of revenue	**24%**	25%	**24%**	27%
Add back (deduct):				
Depreciation included in cost of sales	**1,901**	1,500	**5,501**	4,288
Gain loss on disposal of assets included in cost of sales	**(5)**	(15)	**(125)**	(101)
Cash gross margin	**29,781**	32,005	**94,142**	90,302
as a percentage of revenue	**26%**	26%	**25%**	28%

Payout ratio – means dividends declared as a percentage of Distributable earnings. Refer to "Liquidity and Capital Resources" for the calculation of the Payout ratio.

These measures do not have a standardized meaning as prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other companies.

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.

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended September 30,			Nine Months Ended September 30,		
($000's, except per share amounts)	**2012**	2011	% Change	**2012**	2011	% Change
Revenue	**115,585**	121,958	(5%)	**376,271**	320,464	17%
Gross margin [1]	**27,885**	30,520	(9%)	**88,766**	86,115	3%
Gross margin percentage of revenue [1]	**24%**	25%		**24%**	27%	
Income before taxes	**12,165**	14,250	(15%)	**39,697**	40,580	(2%)
per share – basic	***0.22***	*0.26*	*(15%)*	***0.71***	*0.74*	*(4%)*
per share - diluted	***0.21***	*0.25*	*(16%)*	***0.69***	*0.72*	*(4%)*
Net income	**7,952**	9,501	(16%)	**25,022**	26,822	(7%)
per share – basic	***0.14***	*0.17*	*(18%)*	***0.45***	*0.49*	*(8%)*
per share - diluted	***0.14***	*0.17*	*(18%)*	***0.44***	*0.48*	*(8%)*
EBITDAC [1]	**17,326**	18,601	(7%)	**54,877**	51,895	6%
per share – basic	***0.31***	*0.34*	*(9%)*	***0.99***	*0.95*	*4%*
per share - diluted	***0.30***	*0.33*	*(9%)*	***0.96***	*0.93*	*3%*
Funds flow from operations [1]	**13,073**	17,315	(24%)	**39,631**	45,958	(14%)
per share – basic	***0.23***	*0.32*	*(28%)*	***0.71***	*0.84*	*(15%)*
per share - diluted	***0.23***	*0.31*	*(26%)*	***0.69***	*0.82*	*(16%)*
Dividends declared	**8,367**	6,582	27%	**24,447**	18,962	29%
per share	***0.15***	*0.12*	*25%*	***0.44***	*0.35*	*26%*

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

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and nine months ended September 30, 2012, in comparison to the three and nine months ended September 30, 2011, for CES are as follows:

- CES generated gross revenue of $115.6 million during the third quarter of 2012, compared to $122.0 million for the three months ended September 30, 2011, a decrease of $6.4 million or 5% on a year-over-year basis. The decline in gross revenues is primarily due to a general industry wide slowdown in Canadian drilling activity, as operators scaled back drilling programs out of break-up in the face of high costs, weaker commodity prices, and reduced access to the capital markets. Revenue from Canadian operations for the three months ended September 30, 2012, decreased $10.8 million or 18% to $49.4 million while the US operations contributed to year-over-year revenue gains with a $4.4 million or 7% increase to $66.2 million. Despite a slowdown in Canadian operations during Q3 2012, year-to-date gross revenue totaled $376.3 million, compared to $320.5 million, representing an increase of $55.8 million or 17% on a year-over-year basis.

- CES' estimated Canadian Market Share (refer to "Operational Definitions") was approximately 30% for the three months ended September 30, 2012, up from 28% for the three months ended September 30, 2011. Year to date, estimated market share in Western Canada averaged 31% as compared to 27% in 2011. CES' operating days were estimated to be 9,217 for the three month period ended September 30, 2012, a decrease of 20% from 11,565 operating days during the same period last year. CES' year to date operating days in Western Canada were estimated to total 29,442, consistent with 29,546 operating days during the same period last year. Q3 2012 overall industry drilling activity in Canada is down from Q3 2011 by over 25% from an average of 454 active drilling rigs to 339 based on CAODC published monthly data for Western Canada. Year to date, the CAODC average monthly rig count for Western Canada averaged 352 as compared to 393 in 2011, representing a year-over-year decrease of 10%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $39.7 million for the three months ended September 30, 2012 compared to $50.2 million for the three months ended September 30, 2011, representing a decrease of $10.5 million or 21%. For the nine month period ended September 30, 2012, revenue from drilling fluids related sales of products and services in Western Canada was $133.4 million compared to $119.2 million for the nine month period ended September 30, 2011, representing an increase of $14.2 million or 12%. Average revenue per operating day for the three months ended September 30, 2012, was $4,308 compared to $4,341 for the three months ended September 30, 2011, representing a decrease of 1%. Year-to-date, daily average revenue per operating day was $4,531 compared to $4,036 in 2011, representing a year-over-year increase of 12%. Average revenue per operating day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells in the WCSB. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased.

- CES' United States Market Share (refer to "Operational Definitions") for the three months ended September 30, 2012, was estimated to be 6%, consistent with 6% for the three months ended September 30, 2011. Year to date, estimated market share in the United States averaged 6% as compared to 6% in 2011. Operating days (refer to "Operational Definitions") in the United States were estimated to be 9,492 operating days for the three month period ended September 30, 2012, a decrease of 3% from 9,771 operating days during the same period last year. The year-over-year decrease in estimated operating days is largely impacted by a decline in the US natural gas rig counts and a shift by operators to move away from the Marcellus where the company has had held a significant regional market share. Estimated operating days during the year-to-date period were 30,225 as compared to 28,493 operating days last year, representing an increase of 6%.

- Revenue generated in the US from drilling fluid sales of products and services for the three months ended September 30, 2012, was $66.2 million as compared to the third quarter of 2011 with revenue of $61.8 million, representing an increase of $4.4 million or 7% on a year-over-year basis. Year-to-date, revenue generated in the US totals $215.9 million as compared to $175.7 million in the previous year, representing an increase of $40.2 million or 23%. Daily average revenue per operating day for the three months ended September 30, 2012, was $6,972 compared to $6,320 for the three months ended September 30, 2011, representing an increase of 10%. Year-to-date, daily average revenue per operating day was $7,144 compared to $6,167 in 2011, representing a year-over-year increase of 16%. The increase in average revenue per operating day in the US is a result of a similar trend as to what has been experienced in Canada; operators continue to drill more complex, deeper, and longer horizontal wells resulting in the increased usage of fluids and more technically advanced fluids.

- During the third quarter of 2012, revenue from trucking operations, gross of intercompany eliminations, totalled $4.2 million, a decrease of $1.3 million or 24% from the $5.5 million for the three months ended September 30, 2011. The decrease in trucking revenue is tracking the overall reduction in the industry wide Canadian drilling activity. For the year-to-date period, revenue from trucking operations, gross of intercompany eliminations, totalled $13.8 million which is consistent with the $13.8 million generated during 2011.

- Clear Environmental Solutions division generated $5.7 million of revenue for the three month period ended September 30, 2012, an increase of $1.0 million compared to $4.7 million during the prior year. Revenue from Clear for the nine month period ended September 30, 2012, totalled $13.8 million as compared to $12.3 million for the same period in 2011, representing an increase of $1.5 million or 12%. Clear has continued to market its services aggressively and has capitalized on new regulations in Alberta that have required additional environmental disclosures and procedures by operators.

- For the three month period ended September 30, 2012, CES recorded gross margin of $27.9 million or 24% of revenue, compared to gross margin of $30.5 million or 25% of revenue generated in the same period last year. Year-to-date, gross margin has totalled $88.8 million or 24% of revenue as compared to $86.1 million or 27% last year. The decrease in gross margin percentage on a year-to-date basis is a result of a several factors. CES' Canadian operations continues to see an increasing amount of invert drilling mud comprising a larger proportion of its aggregate Canadian sales as a result of the increasing trend by operators to use invert to drill horizontal wells. This is further compounded as CES is increasingly required to supply this base oil in response to industry conditions whereas historically operators had been able to acquire the required base oil directly. Base oil is used to build invert drilling mud and is a commodity product that is sold at a relatively low margin compared to other products. The result is that Canadian gross year-to-date revenues have increased due to higher and more complex horizontal wells but overall gross margin as a percentage is reduced due to a higher proportion of invert sales. CES continues to identify opportunities to address this situation including the building of an invert blending facility at its base in Edson, AB. As well, throughout North American operations, due to the increasing cost of a number of key input products, CES has faced cost inflation on a number of its input products which have not yet been fully passed on to customers. CES will endeavour to pass on these price increases as appropriate to operators but must manage this prudently given the cash flow challenges currently faced by operators.

- For the three month period ended September 30, 2012, general and administrative expenses were $15.2 million as compared to $14.8 million for the comparative period in 2011, an increase of $0.4 million. As a percentage of revenue for the three months ended September 30, 2012, general and administrative costs were 13% which was comparable to 12% for the third quarter in 2011. For the nine month period ended September 30, 2012, general and administrative costs were $46.6 million as compared to $42.7 million for the same period in 2011, representing an increase of $3.9 million. As a percentage of revenue for the nine months ended September 30, 2012, general and administrative costs were 12% as compared to 13% for the same period in 2011. On an absolute basis, much of the year-over-year change in general and administrative expenses is due to non-cash expense increases related to stock-based compensation and depreciation and amortization costs in the amount of $1.1 million which was offset by lower activity levels in the quarter. For the nine month period ended September 30, 2012, the increase of these two non-cash items, accounted for $2.5 million of the general and administrative cost increase. The remainder of the year-over-year increase in G&A costs is due to a combination of factors including higher staff levels associated with higher activity levels during 2012 as compared to 2011. Included in general and administrative expenses during the three and nine months ended September 30, 2012, are stock-based compensation costs of $1.8 million and $4.6 million, respectively (2011 - $0.8 million and $2.3 million, respectively), and depreciation and amortization costs of $1.0 million and $2.8 million, respectively (2011 - $0.9 million and $2.6 million, respectively).

- EBITDAC (refer to "Non-GAAP Measures") for the three months ended September 30, 2012, was $17.3 million as compared to $18.6 million for the three months ended September 30, 2011, representing a decrease of $1.3 million or 7%. For the nine month period ended September 30, 2012, EBITDAC totalled $54.9 million as compared to $51.9 million in 2011 representing an increase of $3.0 million or 6%. CES recorded EBITDAC per share of $0.31 ($0.30 diluted) for the three months ended September 30, 2012 as compared with EBITDAC per share of $0.34 ($0.33 diluted) in 2011. Year-to-date, CES recorded EBITDAC per share of $0.99 ($0.96 diluted), up from EBITDAC per share of $0.95 ($0.93 diluted) in 2011. The year-to-date increase in EBITDAC per share demonstrates CES' continued ability to grow the business with limited dilution to shareholders.

- CES recorded net income of $8.0 million for the three month period ended September 30, 2012, as compared to $9.5 million in the prior year, representing a decrease of $1.5 million or 16%. CES recorded net income per share of $0.14 ($0.14 diluted) for the three months ended September 30, 2012 versus $0.17 ($0.17 diluted) in 2011, representing a decrease of 18%. For the nine month period ended September 30, 2012, CES recorded net income of $25.0 million, compared with the $26.8 million generated for the same period last year. Year-over year net income per share was $0.45 ($0.44 diluted) as compared with $0.49 ($0.48 diluted) per share for the same period in 2011, representing a decrease of $0.04 or 8% on a per share basis. For the three and nine month periods ended September 30, 2012, the respective year-over-year net income was negatively impacted by higher non-cash depreciation and amortization expenses and stock-based compensation as well as higher income tax expense for the quarter.

- At September 30, 2012, the Company had a three year committed credit agreement with a commercial bank providing for a Senior Credit Facility (the "Senior Facility"), permitting it to borrow up to $120.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. As a result of high activity levels in Q1 2012, on March 22, 2012, the Company entered into an amending agreement on its Senior Credit Facility (the "Bridge Facility") permitting it to borrow up to an additional $20.0 million. Terms and conditions, including the borrowing base, prime interest pricing margin, and covenants were consistent with the Company's Senior Facility. The Bridge Facility was drawn in full on March 30, 2012 and was repaid in full on September 18, 2012. At September 30, 2012, the Company had drawn $81.5 million on the Senior Facility (December 2011 – $93.4 million).

- On October 2, 2012, the Company completed an amendment to its existing Senior Facility including an upsizing and syndication of the facility. The amended syndicated Senior Facility ("Amended Senior Facility") allows the Company to borrow up to $150.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility now has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30.0 million to a maximum borrowing of $180.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate plus an applicable pricing margin ranging from 0.75% to 2.25% or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%. The covenants on the Amended Senior Facility remain consistent with the covenants on the previous Senior Facility.

- CES continued to maintain a strong statement of financial position or "balance sheet" at September 30, 2012, with positive net working capital of $142.3 million (December 31, 2011 - $153.7 million), representing a decline of $11.4 million. The decrease in working capital balances is comprised of a $40.0 million decrease in accounts receivable, $4.1 million increase in inventory, $1.5 million decrease in prepaid expenses, offset by a $35.2 million decrease in accounts payable and accrued liabilities and an $8.5 million increase in income taxes payable.

- During the third quarter of 2012, CES declared monthly dividends in aggregate of $0.15 per share for the quarter. This compares to $0.12 per share for the comparable quarter in 2011. During the third quarter of 2012, the Payout ratio averaged (refer to "Non-GAAP Measures") 65% as compared to 39% in 2011. For the year-to-date period, the Payout ratio averaged 63% compared to 42% during 2011. The year-over-year increase in the Payout ratio is primarily a result of higher dividends declared by the Company in the current year as well as the Company being fully taxable in both the US and Canada during 2012. Management and the Board of Directors review the appropriateness of dividends on a monthly basis, taking into account industry conditions, growth opportunities requiring expansion capital, and management's forecast of Distributable earnings (refer to the "Non-GAAP Measures") and Payout ratio.

- On April 12, 2012, the Company's common shares commenced trading in the United States on the highest tier of the OTC market, the OTC International Marketplace ("OTCQX"), under the trading symbol CESDF. OTCQX securities are quoted on the OTC Link platform, operated by OTC Markets Group. The OTCQX listing will provide the Company with a cost-effective means of enhancing its visibility and accessibility to U.S. based investors.

RESULTS FOR THE PERIODS

	Three Months Ended September 30,			
($000's, except per share amounts)	**2012**	2011	$ Change	% Change
Revenue	**115,585**	121,958	(6,373)	(5%)
Cost of sales	**87,700**	91,438	(3,738)	(4%)
Gross margin (1)	**27,885**	30,520	(2,635)	(9%)
Gross margin percentage of revenue (1)	**24%**	25%		
General and administrative expenses	**15,200**	14,810	390	3%
Finance costs	**520**	1,460	(940)	(64%)
Income before taxes	**12,165**	14,250	(2,085)	(15%)
Current income tax expense	**3,563**	631	2,932	465%
Future income tax expense	**650**	4,118	(3,468)	(84%)
Net income	**7,952**	9,501	(1,549)	(16%)
Net income per share – basic	***0.14***	*0.17*	*(0.03)*	*(18%)*
Net income per share – diluted	***0.14***	*0.17*	*(0.03)*	*(18%)*
EBITDAC (1)	**17,326**	18,601	(1,275)	(7%)

Common Shares Outstanding	**2012**	2011	% Change
End of period	**55,873,073**	54,842,035	2%
Weighted average			
- basic	**55,749,999**	54,834,583	2%
- diluted	**57,356,168**	56,244,549	2%

	As at		
Financial Position ($000's)	**September 30, 2012**	December 31, 2011	% Change
Net working capital	**142,329**	153,660	(7%)
Total assets	**355,329**	385,351	(8%)
Long-term financial liabilities (2)	**85,412**	96,779	(12%)
Shareholders' equity	**209,846**	204,060	3%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Includes long-term portion of the Senior Facility, vehicle financing, and finance leases.*

	Nine Months Ended September 30,			
($000's, except per share amounts)	**2012**	2011	$ Change	% Change
Revenue	**376,271**	320,464	55,807	17%
Cost of sales	**287,505**	234,349	53,156	23%
Gross margin [(1)]	**88,766**	86,115	2,651	3%
Gross margin percentage of revenue [(1)]	**24%**	27%		
General and administrative expenses	**46,581**	42,683	3,898	9%
Finance costs	**2,488**	2,852	(364)	(13%)
Income before taxes	**39,697**	40,580	(883)	(2%)
Current income tax expense	**12,671**	4,420	8,251	187%
Future income tax expense	**2,004**	9,338	(7,334)	79%
Net income	**25,022**	26,822	(1,800)	(7%)
Net income per share – basic	***0.45***	*0.49*	*(0.04)*	*(8%)*
Net income per share – diluted	***0.44***	*0.48*	*(0.04)*	*(8%)*
EBITDAC [(1)]	**54,877**	51,895	2,982	6%

Common Shares Outstanding	**2012**	2011	% Change
End of period	**55,873,073**	54,842,035	2%
Weighted average			
- basic	**55,525,233**	54,659,033	2%
- diluted	**57,261,864**	56,015,520	2%

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

Revenue and Operating Activities

CES generated gross revenue of $115.6 million during the third quarter of 2012, compared to $122.0 million for the three months ended September 30, 2011, a decrease of $6.4 million or 5% on a year-over-year basis. The decline in gross revenues is primarily due to a general industry wide slowdown in Canadian drilling activity, as operators scaled back drilling programs out of break-up in the face of high costs, weaker commodity prices and reduced access to the capital markets. For the nine month period ended September 30, 2012, CES generated gross revenue of $376.3 million as compared to $320.5 million for the same period in 2011, representing an increase of $55.8 million or 17%.

Of the revenue generated during the third quarter of 2012, $39.7 million (2011 - $50.2 million) was generated in the Western Canadian drilling fluids business; $66.2 million (2011 - $61.8 million) was generated in the US drilling fluids business; $5.7 million (2011 - $4.7 million) was contributed by the Clear environmental division, and $4.2 million (2011 - $5.5 million), gross of intercompany eliminations of $0.2 million (2011 - $0.2 million), was generated by trucking operations.

For the nine month period ended September 30, 2012, $133.4 million (2011 - $119.2 million) of revenues were generated in the Western drilling fluids business; $215.9 million (2011 - $175.7 million) was generated in the US drilling fluids business; $13.8 million (2011 - $12.3 million) was contributed by the Clear environmental division, and $13.8 million (2011 - $13.8 million), gross of intercompany eliminations of $0.7 million (2011 - $0.6 million), was generated by trucking operations.

For the three and nine months ended September 30, 2012, CES' top five customers accounted for 39% and 38%, respectively, of total revenue as compared to 39% and 34%, respectively, for the same periods in 2011. Two customers accounted for 24% and 23% of the Company's revenue for the three months ended September 30, 2012 and 2011 respectively. CES' largest customer accounted for 14% and 16% of the Company's revenue for the three and nine months ended September 30, 2012, respectively (2011 – 13% and 14%, respectively).

According to CAODC published monthly data for Western Canada, the active monthly rig count in Western Canada averaged 339 for the three months ended September 30, 2012, representing a 25% decrease from the average rig count of 454 during the third quarter of 2011. Year-to-date, the CAODC average monthly rig count for Western Canada has averaged 352 compared to 393 in 2011, representing a year-over-year decrease of 10%.

CES estimated operating days (refer to "Operational Definitions") from its drilling fluids services as compared to the respective 2011 comparatives are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Change	**2012**	2011	% Change
Canada	**9,217**	11,565	(20%)	**29,442**	29,546	0%
US	**9,492**	9,771	(3%)	**30,225**	28,493	6%
Total Operating Days	**18,709**	21,336	(12%)	**59,667**	58,039	3%

CES' estimated Canadian Market Share (refer to "Operational Definitions") in Western Canada was 30% for the three months ended September 30, 2012, up from 28% for the three months ended September 30, 2011. Year-to-date CES' estimated market share in Western Canada averaged 31% compared to 27% for the same period in 2011. 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 deeper, horizontal wells and the economics of drilling have become more difficult for operators.

In the United States, CES' estimated United States Market Share (refer to "Operational Definitions") for the three months ended September 30, 2012, was estimated to be 6%, consistent with 6% for the three months ended September 30, 2011. Year-to-date, CES' estimated market share in the United States averaged 6% compared to 6% for the same period in 2011.

Revenue per estimated operating day for the Canadian and US drilling fluids segments as compared to the respective 2011 comparatives are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$000's	**2012**	2011	% Change	**2012**	2011	% Change
Canadian Drilling Fluids	**4,308**	4,341	(1%)	**4,531**	4,036	12%
United States Drilling Fluids	**6,972**	6,320	10%	**7,144**	6,167	16%

Overall, CES' drilling fluid business continues to focus on the ongoing major resource plays and, in particular, horizontal drilling activity predominantly focused on either oil or liquids rich gas targets. Horizontal drilling represents a significantly increasing share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex and deeper 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, and becomes even more critical as operators drill horizontally. Year-over-year, revenue per day is tracking upwards as the industry continues to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased. CES has been capitalizing on this trend in the WCSB through its leading market share position and in the US as a result of an organic growth plan.

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, field related depreciation, 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 $27.9 million or 24% of revenue for the three month period ended September 30, 2012, as compared to $30.5 million or 25% of revenue in the third quarter of 2011. Year-to-date, CES achieved a gross margin of $88.8 million or 24% of revenue compared to $86.1 million or 27% of revenue for the same period in 2011. CES' Canadian operations continues to see an increasing amount of invert drilling mud comprising a larger proportion of its aggregate Canadian sales as a result of the increasing trend by operators to use invert to drill horizontal wells. This is further compounded as CES is increasingly required to supply this base oil in response to industry conditions whereas historically operators had been able to acquire the required base oil directly. Base oil is used to build invert drilling mud and is a commodity product that is sold at a relatively low margin compared to other products. The result is that Canadian gross year-to-date revenues have increased due to higher and more complex horizontal wells but overall gross margin as a percentage is reduced due to a higher proportion of invert sales. CES continues to identify opportunities to address this situation including the building of an invert blending facility at its base in Edson, AB. As well, throughout North American operations, due to the increasing cost of a number of key input products CES continues has to faced cost inflation on a number of its input products which have not yet been fully passed on to customers. CES will to endeavour to pass on these price increases as appropriate to operators but must manage this prudently given the cash flow challenges currently faced by operators.

General and Administrative Expenses ("G&A")
G&A for the three month period ended September 30, 2012, was $15.2 million as compared to $14.8 million for the same period in 2011, representing an increase of $0.4 million or 3% year-over-year. G&A as a percentage of revenue for the three months ended September 30, 2012, was 13% which was marginally higher than the three months ended September 30, 2011 of 12%. Year-to-date, G&A was $46.6 million as compared to $42.7 million for the same period in 2011, representing an increase of $3.9 million or 9%. G&A as a percentage of revenue for the nine months ended September 30, 2012, was 12%, compared with 13% for the same period in 2011. On an absolute basis, much of the year-over-year change in general and administrative expenses is due to non-cash expense increases related to stock-based compensation and depreciation and amortization costs in the amount of $1.1 million which was offset by lower activity levels in the quarter. For the nine month period ended September 30, 2012, the increase of these two non-cash items, accounted for $2.5 million of the general and administrative cost increase. The remainder of the year-over-year increase in G&A costs is due to a combination of factors including higher staff levels associated with higher activity levels during 2012 as compared to 2011. Included in general and administrative expenses during the three and nine months ended September 30, 2012, are stock-based compensation costs of $1.8 million and $4.6 million, respectively (2011 - $0.8 million and $2.3 million, respectively), and depreciation and amortization costs of $1.0 million and $2.8 million, respectively (2011 - $0.9 million and $2.6 million, respectively).

Depreciation and Amortization
Depreciation of property and equipment and amortization of intangibles totalled $2.8 million for the three month period ended September 30, 2012, as compared to $2.4 million for the same period in 2011. For the three months ended September 30, 2012, $1.9 million (2011– $1.5 million) of depreciation was included in cost of sales and $1.0 million (2011 – $0.9 million) of depreciation and amortization was included in general and administrative expenses. Year-to-date, depreciation of property and equipment and amortization of intangibles totalled $8.3 million as compared to $6.9 million during 2011. For the nine months ended September 30, 2012, $5.5 million (2011 – $4.3 million) of depreciation was included in cost of sales and $2.8 million (2011 – $2.6 million) of depreciation and amortization was included in general and administrative expenses. The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's expanded operations in both Canada and the United States.

Stock-Based Compensation
Stock-based compensation was $1.8 million for the three months ended September 30, 2012, as compared to $0.8 million during the same period last year. Year-to-date, stock-based compensation was $4.6 million as compared to $2.3 million during the same period last year. The respective year-over-year increase is primarily attributable to the issuance of share rights under the share rights incentive plan and restricted share units under the restricted share units plan throughout the latter part of 2011 and the first and third quarter of 2012.

Finance Costs
Finance costs were $0.5 million for the three months ended September 30, 2012, as compared to $1.5 million during the same period last year. Year-to-date, finance costs were $2.5 million as compared to $2.9 million during the same period last year.

Included in finance costs is interest expense of $0.7 million for the three months ended September 30, 2012, compared to $0.5 million, for the third quarter of 2011. Year-to-date, CES incurred interest expense of $2.7 million, as compared to $2.0 million during 2011. The respective year-over-year increase is primarily attributable to higher average borrowings on CES' various long-term debt and lease facilities as compared to last year. The Company's interest expense consists of interest expense on vehicle financing loans, capitalized lease facilities, and the Senior Facility.

Finance costs for the three months ended September 30, 2012, include a net foreign exchange gain of $0.001 million (2011 –a loss of $0.05 million) primarily related to foreign exchange gains on the Company's US denominated cash and accounts payable. For the nine months ended September 30, 2012, CES recorded a net foreign exchange loss of $0.02 million (2011 – a loss of $0.6

million) primarily related to foreign exchange losses on the Company's US denominated cash balances.

Finance costs for the three and nine month periods ended September 30, 2012, include a net realized derivative gain of $0.21 million and gain of $0.23 million, respectively (2011 –gains of $0.1 million and $0.1 million, respectively), relating to its foreign currency derivative contracts. As of September 30, 2012, the Company had a net financial derivative asset of $0.15 million relating to its outstanding derivative contracts (December 31, 2011 – net liability of $0.20 million).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies.

At September 30, 2012, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to a portion of expected upcoming US dollar denominated cash flows.

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
October 2012	US$570	Deliverable Forward	Physical Sale	$1.0435
November 2012	US$570	Deliverable Forward	Physical Sale	$1.0437
December 2012	US$570	Deliverable Forward	Physical Sale	$1.0302
January 2013	US$570	Deliverable Forward	Physical Sale	$1.0072
February 2013	US$570	Deliverable Forward	Physical Sale	$1.0077
March 2013	US$570	Deliverable Forward	Physical Sale	$1.0073
April 2013	US$325	Deliverable Forward	Physical Sale	$1.0298
May 2013	US$325	Deliverable Forward	Physical Sale	$1.0304
Total	US$4,070			$1.0244

Current and Deferred Income Taxes

During the three and nine months ended September 30, 2012, the Company recorded current income tax expense of $3.6 million and $12.7 million, respectively, as compared to $0.6 million and $4.4 million, respectively, in 2011. The current income tax expense is related to taxable income in Canada and the US for which the Company does not have loss carry forwards to offset. The year-over-year increase in current income tax expense is primarily due to the fact that in 2011 the Company had available non-capital tax loss pools which were utilized to reduce current income taxes. At December 31, 2011, the Company had no non-capital loss pools remaining in the US and limited remaining non-capital tax loss pools in Canada which were subsequently utilized in Q1 2012.

In the third quarter of 2012, the Company recorded a deferred income tax expense of $0.7 million compared to a deferred income tax expense of $4.1 million in Q32011. Year-to-date, the Company recorded a deferred income tax expense of $2.0 million as compared to $9.3 million in the prior year. The deferred income tax expense recorded for the three and nine months ended September 30, 2012, 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. The year-over-year decrease in deferred income tax expense is primarily due to the Company having no non-capital loss pools in the US and limited remaining non-capital tax loss pools in Canada during 2012.

Net Working Capital

At September 30, 2012, the Company had positive net working capital of $142.3 million (December 31, 2011 - $153.7 million), representing a decrease of $11.4 million. The decrease in working capital balances is comprised of a $40.0 million decrease in accounts receivable, $4.1 million increase in inventory, $1.5 million decrease in prepaid expenses, offset by a $35.2 million decrease in accounts payable and accrued liabilities and an $8.5 million increase in income taxes payable.

Total Current Assets

Total current assets of CES decreased from $230.6 million at December 31, 2011 to $193.3 million at September 30, 2012. The decline is primarily due to the decrease in Canadian operations due to an industry wide decrease in activity as operators' moderated activity. The change in current assets consists of an increase of $4.1 million in inventory balances, offset by a decrease in accounts receivable balances of $40.0 million and a decrease of $1.5 million in prepaid expenses.

Total Long-Term Assets
Total long-term assets increased by $7.3 million to $162.1 million at September 30, 2012, from $154.8 million at December 31, 2011. Of the $7.3 million increase during the year, notable changes were a $8.9 million increase in property and equipment, offset by a decrease of $1.3 million in intangible assets and goodwill (net of amortization of intangible assets and the translation of the US dollar-denominated intangible assets and goodwill balances), and a $0.3 million decrease in future income tax assets relating to the use of the Company's non-capital tax loss pools.

Long-Term Financial Liabilities
CES had long-term debt totalling $82.7 million at September 30, 2012, compared to $94.1 million at December 31, 2011, for a decrease of $11.4 million. At September 30, 2012, long-term financial liabilities were comprised of the following balances:

	As at	
$000's	**September 30, 2012**	December 31, 2011
Senior Facility	**81,540**	93,362
Vehicle financing loans	**2,155**	1,449
	83,695	94,811
Less current portion of long-term debt	**(977)**	(747)
Long-term debt	**82,718**	94,064

At September 30, 2012, the Company had total finance lease liabilities of $5.4 million of which $2.7 million represented the current portion.

	As at	
$000's	**September 30, 2012**	December 31, 2011
Finance lease obligations	**5,430**	5,077
Less current portion of finance lease obligations	**(2,736)**	(2,362)
Long-term finance lease obligations	**2,694**	2,715

During the three and nine month period ended September 30, 2012, the Company made long-term scheduled debt and lease repayments totalling $1.1 million and $3.0 million respectively on its finance leases, vehicle debt, and credit facilities.

On October 2, 2012, the Company completed an amendment to its existing Senior Facility. The amended syndicated Senior Facility ("Amended Senior Facility") allows the Company to borrow up to $150.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility now has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30.0 million to a maximum borrowing of $180.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate plus an applicable pricing margin ranging from 0.75% to 2.25% or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%. The covenants on the Amended Senior Facility remain consistent with the covenants on the previous Senior Facility.

Shareholders' Equity
Shareholders' equity increased from $204.1 million at December 31, 2011 to $209.8 million at September 30, 2012. The year-to-date increase in shareholders' equity is primarily attributable to the $25.0 million in net income of CES, $5.6 million relating to the issuance of equity, a $3.5 million increase to contributed surplus as a result of stock-based compensation expense, offset by $24.4 million of dividends declared by the Company during the first nine months of 2012 and a $3.9 million increase in accumulated other comprehensive loss relating to the translation of the Company's wholly owned US subsidiary.

SEGMENTED RESULTS

In Q3 2012, CES operated in two geographical segments: Canada and the United States. Geographical information relating to the Company's activities is as follows:

	Revenue		Revenue	
	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2012**	2011	**2012**	2011
Canada	**49,407**	60,201	**160,337**	144,754
United States	**66,178**	61,757	**215,934**	175,710
Total	**115,585**	121,958	**376,271**	320,464

For the Canadian segment, the decline in gross revenues is primarily due to a general industry wide slowdown in drilling activity, as operators scaled back drilling programs out of break-up in the face of high costs, weaker commodity prices and reduced access to the capital markets. Despite a modest reduction in overall industry activity in the US and a shift of activity away from dry gas drilling which impacted the Company's Marcellus based business, US revenues were up slightly over the same period in 2011, as operators continued to drill more complex, deeper, and longer horizontal wells, which require more fluids in general but also more technically advanced fluids in order for the wells to be successfully drilled and cased.

In Q3 2012, CES had 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 WCSB and in the US through its wholly owned 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 to oil and gas producers in the WCSB. At this time, the results of the PureChem division are not separately disclosed and are included as part of the Drilling Fluids segment. Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended September 30, 2012				
Segmented Information ($000's)	**Drilling Fluids (2)**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**105,884**	**4,175**	**5,727**	**(201)**	**115,585**
Cost of sales	**80,550**	**3,883**	**3,468**	**(201)**	**87,700**
Gross margin	**25,334**	**292**	**2,259**	**-**	**27,885**
Income before taxes	**11,349**	**(172)**	**988**	**-**	**12,165**
EBITDAC (1)	**15,718**	**440**	**1,168**	**-**	**17,326**

	Nine Months Ended September 30, 2012				
Segmented Information ($000's)	**Drilling Fluids (2)**	**Trucking**	**Environmental Services**	**Intercompany Eliminations**	**Total**
Revenue	**349,333**	**13,753**	**13,835**	**(650)**	**376,271**
Cost of sales	**266,192**	**13,625**	**8,338**	**(650)**	**287,505**
Gross margin	**83,141**	**128**	**5,497**	**-**	**88,766**
Income before taxes	**38,644**	**(1,076)**	**2,129**	**-**	**39,697**
EBITDAC (1)	**50,009**	**1,793**	**3,075**	**-**	**54,877**

	Three Months Ended September 30, 2011				
Segmented Information ($000's)	Drilling Fluids [2]	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	111,957	5,500	4,706	(205)	121,958
Cost of sales	84,205	4,538	2,900	(205)	91,438
Gross margin	27,752	962	1,806	-	30,520
Income before taxes	13,061	774	415	-	14,250
EBITDAC [1]	16,663	982	956	-	18,601

	Nine Months Ended September 30, 2011				
Segmented Information ($000's)	Drilling Fluids [2]	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	294,951	13,828	12,288	(603)	320,464
Cost of sales	215,846	11,422	7,684	(603)	234,349
Gross margin	79,105	2,406	4,604	-	86,115
Income before taxes	37,939	1,023	1,618	-	40,580
EBITDAC [1]	47,140	2,592	2,163	-	51,895

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Results from PureChem operations have been included in the Drilling Fluids segment.

Drilling Fluids Segment

For the three months ended September 30, 2012, revenue from the Drilling Fluids segment totalled $105.9 million compared to $112.0 million for the three months ended September 30, 2011, representing a decrease of $6.1 million or 5%. For the three months ended September 30, 2012, revenue per operating day for the Drilling Fluids Segment totalled $5,660 compared to $5,247 for the three months ended September 30, 2011. Year-to-date revenue from the Drilling Fluids Segment totalled $349.3 million as compared to $295.0 million last year representing an increase of $54.3 million or 18% on a year over year basis. Year-to-date revenue per operating day for the Drilling Fluids Segment totalled $5,855 compared to $5,082 for the same period in 2011. Average revenue per operating day has trended upward over the last several years as operators continue to drill more complex, deeper, and longer horizontal wells. These wells require more fluids in general but also more technically advanced fluids in order to be successfully drilled and cased. For additional details regarding the Company's market share and operating days for the three and nine months ended September 30, 2012, refer to "Overview of Financial and Operational Results" and "Results for the Period" sections above. Gross margins for the Drilling Fluids segment for the three and nine months ended September 30, 2012 were $25.3 million and $83.1 million respectively compared to $27.8 million and $79.1 million in the prior year. EBITDAC for the three and nine months ended September 30, 2012 was $15.7 million and $50.0 million respectively compared to $16.7 million and $47.1 million in the prior year.

Trucking Segment

Revenue from the Trucking segment, gross of intercompany eliminations, was $4.2 million for the three month period ended September 30, 2012, as compared to $5.5 million during last year representing a decrease of $1.3 million or 24%. Year-to-date, the Trucking segment had total revenue, gross of intercompany eliminations, of $13.8 million which is consistent with$13.8 million during the same period in 2011. Gross margins for the Trucking segment for the three and nine months ended September 30, 2012 were $0.3 million and $0.1 million respectively compared to $1.0 million and $2.4 million in the prior year. EBITDAC for the three and nine months ended September 30, 2012 was $0.4 million and $1.8 million, respectively, compared to $1.0 million and $2.6 million in the prior year.

Environmental Services Segment

Revenue from the Environmental Services segment was $5.7 million for the three month period ended September 30, 2012, compared to $4.7 million generated for the same period of 2011, representing an increase of $1.0 million or 22%. Year-to-date revenue for the Environmental Services totalled $13.8 million as compared to $12.3 million in 2011, representing an increase of $1.5 million or 12%. Gross margins for the Environmental Services segment for the three and nine months ended September 30, 2012 were $2.3 million and $5.5 million respectively compared to $1.8 million and $4.6 million in the prior year. EBITDAC for the three and nine months ended September 30, 2012 was $1.2 million and $3.1 million respectively compared to $1.0 million and $2.2 million in the prior year. Clear has continued to market its services aggressively in its pursuit of more complex opportunities in the oilsands and horizontal drilling and has capitalized on new regulations in Alberta that have required additional environmental disclosures and procedures by operators.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Revenue	**115,585**	104,129	156,557	138,793
Gross margin [(1)]	**27,885**	23,523	37,358	37,300
Net income	**7,952**	3,368	13,702	14,873
per share– basic	***0.14***	*0.06*	*0.25*	*0.27*
per share– diluted	***0.14***	*0.06*	*0.24*	*0.26*
EBITDAC [(1)]	**17,326**	12,793	24,759	24,426
per share– basic	***0.31***	0.23	0.45	*0.44*
per share– diluted	***0.30***	0.22	0.43	*0.43*
Funds flow from operations [(1)]	**13,073**	8,730	17,828	22,705
per share– basic	***0.23***	0.16	0.32	*0.41*
per share– diluted	***0.23***	0.15	0.31	*0.40*
Dividends declared	**8,367**	8,339	7,741	7,156
per share	***0.15***	*0.15*	*0.14*	*0.13*
Shares Outstanding				
End of period	**55,873,073**	55,681,662	55,381,861	55,138,435
Weighted average – basic	**55,749,999**	55,567,426	55,255,804	55,001,647
Weighted average – diluted	**57,356,168**	57,327,933	57,102,551	56,870,630

	Three Months Ended			
($000's, except per share amounts)	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010
Revenue	121,958	86,967	111,539	94,468
Gross margin [(1)]	30,520	22,971	32,624	26,281
Net income	9,501	5,506	11,815	9,427
per share– basic	*0.17*	*0.10*	*0.22*	*0.18*
per share– diluted	*0.17*	*0.10*	*0.21*	*0.17*
EBITDAC [(1)]	18,601	12,501	20,792	17,124
per share– basic	*0.34*	*0.23*	*0.38*	*0.32*
per share– diluted	*0.33*	*0.22*	*0.37*	*0.31*
Funds flow from operations [(1)]	17,315	9,878	18,765	16,381
per share– basic	*0.32*	*0.18*	*0.34*	*0.30*
per share– diluted	*0.31*	*0.18*	*0.34*	*0.30*
Dividends declared	6,582	6,573	5,807	5,042
per share	*0.12*	*0.12*	*0.11*	*0.10*
Shares Outstanding				
End of period	54,842,035	54,803,235	54,479,985	54,395,487
Weighted average – basic	54,834,583	54,712,282	54,425,742	53,776,982
Weighted average – diluted	56,244,549	56,123,443	55,809,750	54,504,694

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

Seasonality of Operations
The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. As the drilling fluids business expands in the US and as the production chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2012, the Company had net working capital of $142.3 million (December 31, 2011 - $153.7 million), representing a decrease of $11.3 million.

On December 21, 2011, the Company entered into a three year credit agreement with a Canadian commercial bank and its US based affiliate providing for the new Senior Facility, permitting it in aggregate to borrow up to $120.0 million, subject to the value of certain accounts receivable, inventory, and capital assets.

As a result of high activity levels in Q1 2012, on March 22, 2012, the Company entered into an amending agreement to its Senior Credit Facility permitting it to borrow up to an additional $20.0 million (the "Bridge Facility"). Terms and conditions, including the borrowing base, prime interest pricing margin, and covenants are consistent with the Company's Senior Facility. The Bridge Facility was drawn in full on March 30, 2012, and was repaid in full on September 18, 2012.

At September 30, 2012, CES had a net draw of $81.5 million on its Senior Facility (December 31, 2011 - $93.4). The maximum available draw on the Senior Facility as at September 30, 2012, based on eligible accounts receivable, inventory, and certain capital asset balances, was $110.4 million (December 31, 2011 - $120.0 million).

On October 2, 2012, the Company completed an amendment to its existing Senior Facility. The amended syndicated Senior Facility ("Amended Senior Facility") allows the Company to borrow up to $150.0 million, subject to the value of certain accounts receivable, inventory, and capital assets. The Amended Senior Facility now has a term to maturity of three years, maturing on October 2, 2015, and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Amended Senior Facility by $30.0 million to a maximum borrowing of $180.0 million, subject to the value of certain accounts receivable, inventory, and capital assets.

Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate plus an applicable pricing margin ranging from 0.75% to 2.25% or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 3.25%. The Amended Senior Facility has a standby fee ranging from 0.40% to 0.73%.

The Amended Senior Facility is secured by: (a) in respect of Canadian Energy Services L.P. (the "Partnership"), Canadian Energy Services Inc. (the "General Partner"), CES and CES Operations Ltd., guarantees and general security agreements creating a security interest in all present and after-acquired personal property of the Partnership, the General Partner, CES and CES Operations Ltd., respectively, and (b) in respect of AES and AES Drilling Fluids Holdings, LLC ("AES Holdco"), guarantees and pledge and security agreements creating a security interest in all present and after-acquired personal property of AES and AES Holdco, respectively.

In conjunction with the Amended Senior Facility, the following are some of the key financial covenants imposed on CES, which are consistent with the previous facility:

- 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 less any leases characterized as operating leases 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, and 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, as calculated on a rolling four-quarter basis.

- 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, 2012, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

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

- Bank Leasing Facility of up to $5.0 million of which $5.0 million has been drawn on to date. As of September 30, 2012, the Company had an outstanding balance owing on these lease facilities of $3.2 million. The Company's floating interest rate leases are for terms ranging to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%, resulting in monthly payments of approximately $0.06 million. The Company's fixed interest rate leases are for terms ranging to March 2016 with interest on the Company's lease facilities at a weighted average rate of 4.93%, resulting in monthly payments of approximately $0.1 million.
- Vehicle finance leases are secured by each related vehicle and incur interest at rates up to 9.76%, with a weighted average rate of approximately 6.28%, and have termination dates ranging from November 2012 through April 2017. At September 30, 2012, outstanding vehicle loans totalled $2.2 million as compared to $2.4 million at December 31, 2011.
- Vehicle financing are secured by each related vehicle and incur interest at rates up to 8.71%, with a weighted average rate of approximately 5.45%, and have termination dates ranging from December 2012 through October 2015. At September 30, 2012, outstanding vehicle loans totalled $2.2 million as compared to $1.4 million at December 31, 2011.

The following table details the remaining contractual maturities of the Company's financial liabilities as of September 30, 2012:

	Payments Due By Period [(1)]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	35,928	-	-	-	-	**35,928**
Dividends payable [(2)]	2,794	-	-	-	-	**2,794**
Income taxes payable	-	8,503	-	-	-	**8,503**
Long-term debt at fixed interest rates [(3)]	179	798	789	389	-	**2,155**
Long-term debt at floating interest rates [(3)]	-	-	-	81,540	-	**81,540**
Finance lease obligations at fixed interest rates [(3)]	130	666	836	1,003	-	**2,635**
Finance lease obligations at floating interest rates [(3)]	431	1,509	711	144	-	**2,795**
Office operating leases	332	1,461	1,315	2,292	-	**5,400**
Total	39,794	12,937	3,651	85,368	-	**141,750**

(1) Payments denominated in foreign currencies have been translated at the respective period end exchange rate
(2) Dividends declared as of September 30, 2012
(3) Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

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 Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues or restrictions on expanding its debt facilities when required.

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 and commitments. 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. In the event that it is required, based on the market conditions at the time, 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 relatively buoyant crude oil prices, natural gas prices continue to remain very 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 continues to be a focus 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, 2012, cash flow from operating activities was an inflow of $16.8 million compared to an outflow of $0.8 million during the same period in the prior year. Funds flow from operations (refer to "Non-GAAP Measures"), which takes into consideration changes in non-cash working capital, for the three months ended September 30, 2012, was a $13.1 million inflow as compared to $17.3 million during 2011. The decline in Funds flow from operations for the third quarter is primarily a result of the decline in overall Canadian activity levels as noted above as well as the Company being fully taxable in both Canada and the US during 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2012**	2011	**2012**	2011
Cash provided by operating activities	**16,789**	(802)	**49,605**	10,730
Adjust for:				
Change in non-cash operating working capital	**(3,716)**	18,117	**(9,974)**	35,228
Funds flow from operations	**13,073**	17,315	**39,631**	45,958

Cash Flows from Investing Activities
For the three months ended September 30, 2012, net cash outflows from investing activities totalled $4.2 million compared to $8.8 million for the comparative prior year period.

For the three months ended September 30, 2012, gross property and equipment asset additions were $3.9 million of which $0.7 million related to vehicle financing or leases for net expenditures of $3.2 million. CES had $0.2 million of additions related to maintenance capital and $3.8 million of additions related to expansion capital gross of vehicle financing.

Expansion capital expenditures in Q3 2012 were down from more recent quarters as several larger expansion projects previously undertaken were completed. These expansions projects included the expansion of the tank farm and invert blending facility in Edson, AB, and the Company's PureChem facility in Carlyle, SK and the building of three new warehouse and fluids storage facilities to service the Eagleford shale in Texas, the Utica shale in Ohio, the Bakken in North Dakota and the other necessary equipment required to support these facilities and the corresponding expanded operations. During the third quarter of 2012, notable additions included $0.7 million on the purchase of tanks; $0.3 million of warehouse and facilities, field, and processing equipment; $0.7 million of vehicles; $0.2 million of trucks and trailers; and $1.8 million of warehouse and facilities related construction and expansion costs.

Details of investment made in property and equipment are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2012**	2011	**2012**	2011
Expansion capital	**3,755**	4,981	**15,402**	12,713
Maintenance capital	**155**	363	**795**	1,097
Total investment in property and equipment	**3,910**	5,344	**16,197**	13,810
Vehicle financing and leases	**(685)**	(752)	**(2,435)**	(1,986)
Capital expenditures	**3,225**	4,592	**13,762**	11,824
Change in non-cash investing working capital	**1,058**	(332)	**1,456**	207
Cash used for investment in property and equipment	**4,283**	4,260	**15,218**	12,031

In general, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and earnings generated, 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.

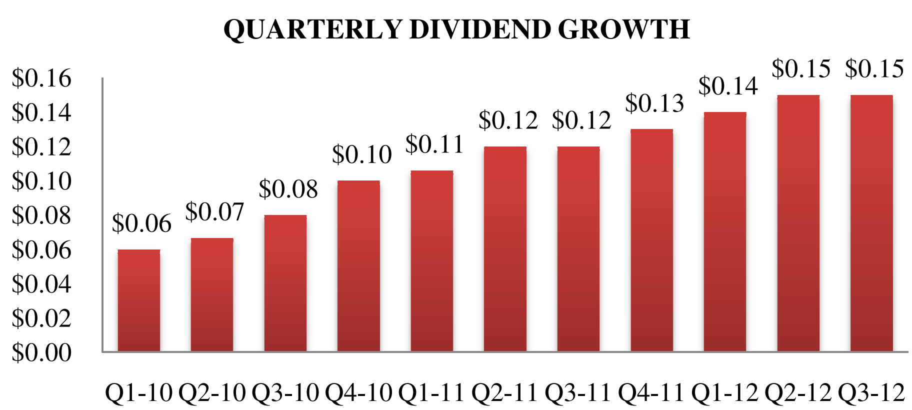
Cash Flows from Financing Activities
For the three months ended September 30, 2012, cash flow from financing activities totalled a cash outflow of $12.6 million compared to a cash outflow of $9.5 million during the comparative prior year period. For the three month period ended September 30, 2012, CES repaid $1.1 million of its long-term debt and lease balances, paid dividends to shareholders totalling $8.4 million, and repaid $3.8 million, net of foreign exchange variances, on its Senior Facility. This was offset by cash proceeds of $0.7 million relating to the exercise of stock options.

CES calculated Distributable earnings (refer to the "Non-GAAP Measures") based on Funds flow from operations (refer to the "Non-GAAP Measures") and the Payout ratio (refer to the "Non-GAAP Measures") based on the level of dividends declared as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2012**	2011	**2012**	2011
Cash provided by (used in) operating activities	**16,789**	(802)	**49,605**	10,730
Adjust for:				
Change in non-cash operating working capital	**(3,716)**	18,117	**(9,974)**	35,228
Funds flow from operations [(1)]	**13,073**	17,315	**39,631**	45,958
Maintenance capital [(2)]	**(155)**	(363)	**(795)**	(1,097)
Distributable earnings [(1)]	**12,918**	16,952	**38,836**	44,861
Dividends declared	**8,367**	6,582	**24,447**	18,962
Payout ratio [(1)]	**65%**	39%	**63%**	42%

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

Distributable earnings (refer to the "Non-GAAP Measures") were $12.9 million for the three months ended September 30, 2012, as compared to $16.9 million for the same period in 2011. During the third quarter of 2012, the Payout ratio (refer to the "Non-GAAP Measures") was 65% compared to 39% for the third quarter of 2011. Year-to-date, Distributable earnings were $38.8 million, as compared to $44.9 million in 2011. For the nine months ended September 30, 2012, the Payout ratio was 63% compared to 42% for the same period of 2011. The year-over-year increase in the Payout ratio is primarily a result of higher dividends declared by the Company in the current year as well as the Company being fully taxable in both the US and Canada during 2012.



Dividend Policy
During the third quarter of 2012, CES declared monthly dividends of $0.05 per share for a total of $0.15 per share for the quarter. This compares to $0.12 per share for the comparable quarter in 2011.

The Company declared dividends to holders of common shares for the nine months ended September 30, 2012, as follows:

$000's except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.045	**2,483**
February	Feb 29	Mar 15	0.045	**2,489**
March	Mar 30	Apr 13	0.050	**2,769**
April	Apr 30	May 15	0.050	**2,776**
May	May 31	Jun 15	0.050	**2,779**
June	Jun 29	Jul 13	0.050	**2,784**
July	Jul 31	Aug 15	0.050	**2,785**
August	Aug 31	Sep 14	0.050	**2,788**
September	Sep 28	Oct 15	0.050	**2,794**
Total dividends declared during the period			$0.440	**24,447**

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 activity levels 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 earnings and Payout ratio (refer to the "Non-GAAP Measures"). 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 as the long-term expansion capital investments and maintenance capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and earnings generated.

Subsequent to September 30, 2012, CES declared a monthly dividend of $0.05 per common share to shareholders of record at October 31, 2012, for the month of October 2012.

Shareholders' Equity

As of September 30, 2012, CES had a total of 55,873,073 common shares outstanding. As of the date of this MD&A, CES had a total of 56,003,461 common shares outstanding.

Stock-based Compensation

As at September 30, 2012, a total of 5,587,307 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan of which 1,717,154 remained available for grant.

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

At September 30, 2012, a total of 57,600 (December 31, 2011–115,000) options were outstanding at a weighted average exercise price of $2.79. As at September 30, 2012, a total of 57,600 options were exercisable at a weighted average price of $2.79. As of the date of this MD&A, there were a remaining 57,600 options outstanding. As a result of the Conversion effective January 1, 2010, 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 ("SRIP")
At September 30, 2012, a total of 3,045,088 Share Rights were outstanding (December 31, 2011 – 2,987,602) at a weighted average exercise price of $7.43 (assuming all SRIP's are exercised at their respective original exercise price) of which 477,000 were exercisable. As of the date of this MD&A, an aggregate of 2,997,088 Share Rights remain outstanding, of which 1,102,500 have vested.

c) Restricted Share Unit Plan ("RSU")
At September 30, 2012, a total of 767,465 Restricted Share Units were outstanding (December 31, 2011 – 310,030) at a weighted average price of $11.57, none of which were vested. As of the date of this MD&A, an aggregate of 676,754 Restricted Share Units remain outstanding, none of which have vested.

Commitments / Contractual Obligations
At September 30, 2012, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**2012 - 3 months**	**2013**	**2014**	**2015**	**2016**	**Total**
Office and facility rent	488	1,695	1,219	1,123	875	**5,400**

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 unaudited interim condensed 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' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2011, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2011.

RECENT ACCOUNTING PRONOUNCEMENTS

During the nine months ended September 30, 2012, there were no revised standards or amendments to IFRS issued. Refer to the Company's December 31, 2011 MD&A for the recent accounting pronouncements for which the Company is continuing to evaluate the impact of adopting these standards.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be reported by CES is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of CES, to allow timely decisions regarding required public disclosure by CES in its annual filings, interim filings or other reports filed or submitted in accordance with Canadian securities legislation.

Internal Controls over Financial Reporting

Management of CES is responsible for establishing and maintaining internal controls over financial reporting for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. There have been no changes to CES' internal controls over financial reporting during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

It should be noted that while the President and Chief Executive Officer and Chief Financial Officer believe that CES' disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2011 Annual Report, CES' Annual Information Form dated March 8, 2012 in respect of the year ended December 31, 2011, and CES' Information Circular in respect to the June 14, 2012 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

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.

Crude oil prices have weakened over the last six months and are likely to continue to see volatility in the face of macro-economic forces. In addition, many operators in the WCSB have been challenged by crude oil pricing differentials versus world benchmarks such as Brent and West Texas Intermediate. Natural gas prices have remained weak since late 2008 and declined to ten year lows in Q2. Q3 has seen a modest recovery in natural gas prices but forecasters are mixed as to the potential quantum of the recovery and its possible sustainability. In the face of high costs, weaker commodity prices, and reduced access to the capital markets, operators in Canada have scaled back activity while in the US overall activity has remained flat. Drilling activity could slow further if operators' access to capital remains challenged or the price of crude oil falls further or the price of natural gas does not recover to economic levels.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. As the drilling fluids business expands in the US and as the production chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

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 over 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 factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, 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 natural gas prices persist, or if crude oil prices fall, or volatile 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.

CES' US footprint and size of operations continues to increase. 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 the 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 three to four years has impacted the general availability of both credit and equity financing in the marketplace. The current sovereign debt issues ongoing in Europe and the generally tepid economic forecasts for the North American and world economy result in continued uncertainty. 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 Senior Facility is critical to the effective execution of the business. CES has not experienced any funding issues under its debt facilities to date.

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 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 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 amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion. It should be noted that in Q4 2011 CES received a letter from the Canada Revenue Agency ("CRA") requesting information in order to review the Conversion and CES is in the process of providing information requested by the CRA.

Reference should be made to CES' Annual Information Form dated March 8, 2012 for the period ended December 31, 2011, 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

Coming out of spring break-up, activity in Canada has failed to realize 2011 levels as operators scaled back drilling programs in the face of high costs, weaker netback prices, and reduced access to the capital markets. The US market has remained relatively flat but a shift continues to oil and or liquids rich drilling targets, resulting in reductions in CES' Marcellus activity which has not been fully offset by pick-ups in other plays such as the Utica and the Eagleford. CES' Q3 2012 results reflect the decrease in activity over the comparable period in 2011. Despite the slowdown in overall drilling activity, CES' dominant business line, the drilling fluids segment, has experienced increases in revenue per day as the industry trend to drill more complex, deeper and longer horizontal wells continues. CES has benefited from this trend as these types of wells require more fluids in general, but also more technically advanced fluids in order to be successfully drilled and cased. The result is the drilling fluids portion of the typical well cost has increased, while the average well cost has also increased. Based on the reported well economics of the different North American play types and the reported drilling plans of operators, this trend looks to continue.

CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share in North America. As a larger percentage of the wells being drilled require more complex drilling fluids to best manage down hole conditions, drilling times and costs, CES will leverage its superior customer service and its unique products like its patented Seal-AX™ line; its advanced synthetic oil mud systems EnerDrill™ and ABS40™; and other proprietary solutions such as PureStar™ and Liquidrill™/Tarbreak to demonstrate its superior performance. CES believes that its unique value proposition in this increasingly complex drilling environment makes it the premier independent drilling fluids provider in North America.

Despite the decrease in activity in the WCSB, the EQUAL Transport division has remained profitable. It is expected this business will continue to be economically viable and may be expanded further as attractive opportunities emerge.

The PureChem Services division continues to grow. PureChem manufactures and sells drilling fluid chemicals and production chemicals. PureChem began operations with the opening of its chemical blending facility in February 2011. PureChem is a complimentary business to both CES' drilling fluids business and EQUAL's production hauling businesses in Canada. CES' strategy is to continue to build out PureChem from its southeast Saskatchewan roots, through both organic growth off of our established North American platforms and through strategic fit acquisitions.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business. 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.

As drilling has become more complex, advanced 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 and production chemical markets. CES operates three separate lab facilities located in Carlyle, Saskatchewan; Calgary, Alberta; and Houston, Texas. CES also leverages third party partner relationships to drive innovation in the fluids business.

On a corporate level, CES continually assesses integrated business opportunities that will keep CES competitive and enhance profitability. However, all acquisitions must meet our stringent financial and operational metrics. CES will also closely manage its dividend levels and capital expenditures in order to preserve its financial strength, its low capital re-investment model and its strong liquidity position.

Despite the slowdown in overall drilling activity in Q3 2012, CES remains optimistic about the long-term prospects of its business. Lower commodity prices have constrained operators' cash flow and taxed their available credit lines, while at the same time access to capital through the equity markets has been constrained. All of these factors have affected the amount of capital available to drill wells. Recent improvement in natural gas prices and an opening in the capital markets, which has seen certain operators access equity markets, are signs of near-term optimism. However, CES expects that overall activity levels in Canada in the near-term will be muted and US activity will remain somewhat flat. The low capex, unleveraged business model CES deploys is well suited to withstand these activity troughs, while at the same time CES continues to pursue opportunities to grow and expand the business.

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 CES' web site at www.canadianenergyservices.com.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

BOARD OF DIRECTORS
Kyle D. Kitagawa[1]
Chairman

Colin D. Boyer[1, 2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney Carpenter

James (Jim) G. Sherman

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

OFFICERS
Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP.
Chartered Accountants, Calgary, AB

BANKERS
HSBC Bank Canada, Calgary, AB

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

REGISTRAR & TRANSFER AGENT
Computershare Investor Services Inc.
Calgary, AB and Toronto, ON

CORPORATE OFFICE
Suite 1400, 700– 4th Avenue SW
Calgary, AB T2P 3J4
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

DIVISIONS
PureChem Services
2 Miles South, Highway 9
Carlyle, SK S0C 0R0
Phone: 306-453-4414
Fax: 306-453-4415

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

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

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

US OPERATIONS
DIVISIONS
Corporate Office & Gulf Coast Division
11767 Katy Freeway, Suite 230
Houston, TX 777079
Phone: 281-556-5628
Fax: 281-589-7150

Northeast
4 Grandview Circle, Suite 202
Canonsburg, PA 15317
Phone: (724) 743-2934
Fax: (724) 743-2938

Mid-Continent
708 24th Avenue NW
Norman, OK 73069
Phone: 405-321-1365
Fax: 405-321-3154

Rockies
1625 Broadway, Suite 1480
Denver, CO 80202
Phone: 303-820-2800
Fax: 303-820-2801

www.canadianenergyservices.com