



Q4

Year Ended December 31, 2009
As at March 9, 2010



Canadian Energy
SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp., formerly Canadian Energy Services L.P. (collectively "CES") for the years ended December 31, 2009 and December 31, 2008 and CES' 2009 Annual Information Form. The information contained in this MD&A was prepared up to and including March 9, 2010 and incorporates all relevant considerations to that date.

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

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

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, taxation of trusts, public partnerships and other flow-through entities, reassessment and audit risk associated with the Conversion; changes to the royalty regimes applicable to entities operating in the WCSB and the US; risks associated with the Acquisition, including risks that anticipated benefits may not materialize to the extent anticipated by CES or at all; 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 period ended December 31, 2009 and "Risks and Uncertainties" in this MD&A.

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

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CORPORATE CONVERSION TRANSACTION

Effective January 1, 2010, Canadian Energy Services L.P. (“CES” or 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. (“CESTC”) with no changes to the underlying business operations. CESTC trades on the TSX under the trading symbol “CEU”.

This MD&A contains extensive discussion and analysis of the financial condition and results of operations of the Partnership pre-Conversion. Therefore certain terms such as shareholder/unitholder and dividend/distribution may be used interchangeably throughout this MD&A. For the years ended December 31, 2009 and 2008 all distributions to unitholders were in the form of limited partnership unit distributions. In addition “CES” is used throughout to describe the business undertaken by the Partnership pre-Conversion and for CESTC post-Conversion.

BUSINESS OF CES

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

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

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

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

NON-GAAP MEASURES

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

EBITDAC – means net earnings before interest, taxes, amortization, loss on disposal of assets, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, and unit-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. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. EBITDAC was calculated as follows:

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\$000's	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Net earnings and comprehensive earnings	5,857	4,715	7,515	15,186
Add back (deduct):				
Amortization	926	1,086	3,526	2,601
Interest expense, net of interest income	204	228	478	586
Future income tax (recovery) expense	(2,765)	30	(2,540)	125
Unit-based compensation	124	492	827	2,097
Unrealized foreign exchange (gain) loss	(16)	(281)	13	(283)
Unrealized derivative loss	2	-	11	-
Loss on disposal of assets	41	12	110	37
EBITDAC ⁽¹⁾	4,373	6,282	9,940	20,349
Nevaro Conversion transaction costs	586	-	586	-
Adjusted EBITDAC ⁽¹⁾	4,959	6,282	10,526	20,349

Notes:

¹ Prior year balances recomputed to conform to current year financial statement presentation.

Distributable funds – 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 funds 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. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Refer to “Liquidity and Capital Resources – Funds Flow from Operations” for the calculation of distributable funds.

Funds flow from operations – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flow, net earnings, or other measures of financial performance calculated in accordance with Canadian GAAP. Funds flow from operations assists management and investors in analyzing operating performance and leverage. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Funds flow from operations was calculated as follows:

\$000's	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Cash provided by (used in) operating activities	(2,133)	4,041	19,345	2,487
Adjust for:				
Change in non-cash operating working capital	6,302	2,013	(9,883)	17,276
Funds flow from operations ⁽¹⁾	4,169	6,054	9,462	19,763

Notes:

¹ Prior year balances recomputed to conform to current year financial statement presentation.

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 earnings.

Payout ratio – means distributions or dividends declared as a percentage of distributable funds. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Refer to “Liquidity and Capital Resources – Funds Flow from Operations” for the calculation of the payout ratio.

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

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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.

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.

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

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

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

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FINANCIAL HIGHLIGHTS

Summary Financial Results (\$000's, except per unit amounts)	Three Months Ended December 31,			Year Ended December 31,		
	2009	2008	% Change	2009	2008	% Change
Revenue	27,303	41,385	(34.0%)	89,454	125,069	(28.5%)
Gross margin ⁽¹⁾	9,160	11,980	(23.5%)	26,712	36,696	(27.2%)
Gross margin percentage of revenue ⁽¹⁾	33.5%	28.9%		29.9%	29.3%	
Net earnings before taxes ⁽⁴⁾	3,092	4,745	(34.8%)	4,975	15,311	(67.5%)
<i>per unit – basic</i> ⁽²⁾	0.27	0.42	(35.7%)	0.44	1.47	(70.1%)
<i>per unit – diluted</i> ⁽²⁾	0.26	0.42	(38.1%)	0.44	1.47	(70.1%)
Net earnings ⁽⁴⁾	5,857	4,715	24.2%	7,515	15,186	(50.5%)
<i>per unit – basic</i> ⁽²⁾	0.51	0.42	21.4%	0.67	1.46	(54.1%)
<i>per unit – diluted</i> ⁽²⁾	0.50	0.42	19.0%	0.66	1.46	(54.8%)
EBITDAC ⁽¹⁾⁽³⁾⁽⁴⁾	4,373	6,282	(30.4%)	9,940	20,349	(51.2%)
<i>per unit – basic</i> ⁽²⁾	0.38	0.56	(32.1%)	0.88	1.96	(55.1%)
<i>per unit – diluted</i> ⁽²⁾	0.37	0.56	(33.9%)	0.88	1.96	(55.1%)
Funds flow from operations ⁽¹⁾⁽³⁾⁽⁴⁾	4,169	6,054	(31.1%)	9,462	19,763	(52.1%)
<i>per unit – basic</i> ⁽²⁾	0.36	0.54	(33.3%)	0.84	1.90	(55.8%)
<i>per unit – diluted</i> ⁽²⁾	0.35	0.54	(35.2%)	0.84	1.90	(55.8%)
Distributions declared	2,787	2,653	5.1%	10,759	9,906	8.6%
<i>per Class A Unit</i>	0.2376	0.2376	-	0.9504	0.9504	-
<i>per Subordinated Class B Unit</i>	-	0.2376		0.2376	0.9504	

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² Includes Class A Units and Subordinated Class B Units.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ For the three months ended December 31, 2009 and year-ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three months and year ended December 31, 2009 in comparison to the three months and year ended December 31, 2008 for CES are as follows:

- On November 26, 2009, CES and AES Drilling Fluids, LLC ("AES"), a wholly-owned indirect subsidiary of CES announced that it had entered into a business acquisition agreement with Champion Drilling Fluids Inc. ("Champion"), a private Oklahoma-based drilling fluids service company, to acquire substantially all of the business assets of Champion. On November 30, 2009 CES and AES closed the acquisition of the Champion business assets (the "Acquisition"). Champion is headquartered in Norman, Oklahoma, and is one of the leading independent full service drilling fluids companies in the U.S. midcontinent region. Champion was established in 1982 and provides drilling fluid solutions for a large number of oil, natural gas, and unconventional natural gas developers operating primarily in Kansas, Texas, and Oklahoma. Champion employees and management have extensive experience and have built the business over time with a focus on continued profitability and revenue growth. Champion has a strong customer base of over 20 clients and proven technical capabilities in delivering high quality drilling fluid products and services. Through a network of stock points and established infrastructure, Champion has built a platform to service the development of the mid-continent U.S. and other unconventional resource basins such as the Marcellus shale in the northeast US.

The aggregate purchase price excluding transaction costs was \$17.3 million (US\$16.4 million) consisting of \$8.2 million (US\$7.8 million) in net cash consideration after a working capital adjustment, \$2.4 million (US\$2.3 million) in additional deferred acquisition consideration, and a \$6.6 million (US\$6.3 million) subordinated convertible debenture (the "Debenture"). US\$2.0 million of the additional deferred acquisition consideration is payable in cash upon the earlier of the

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second anniversary of the Acquisition or the successful business expansion of the Champion Drilling Fluids business operations into the Marcellus shale region of the US. The face value of the Debenture was \$6.6 million with a fixed conversion price of C\$8.37 per CES common share and paid interest monthly at 12% per annum. The Debenture was subject to forced conversion into 791,776 common shares of CES upon completion of the Conversion which became effective January 1, 2010. The common shares issued on Conversion are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard exceptions including a change of control of CES, on each of the first, second and third anniversaries after closing of the acquisition. The cash payable at closing of the acquisition was funded through CES' current operating line credit facilities.

- On December 15, 2009, through a syndicate of underwriters, CES completed a bought deal private placement equity financing in which the Partnership issued 1,000,000 Class A Units at \$10.00 per Class A Unit for gross proceeds of \$10.0 million. Net proceeds to CES after fees from the offering totalled \$9.4 million.
- CES generated gross revenue of \$27.3 million during the fourth quarter of 2009, compared to \$41.4 million for the three months ended December 31, 2008, a decrease of \$14.1 million or 34.0% on a year-over-year basis. Total gross revenue for 2009 was \$89.5 million compared to \$125.1 million for 2008, representing a decline of \$35.6 million or 28.5% on a year-over-year basis. During Q4 2009, gross revenue on a per unit basis was \$2.32 per unit compared to \$3.71 per unit for Q4 2008, a decrease of 37.3%. For the year ended, gross revenue on a per unit basis was \$7.91 per unit compared to \$12.04 per unit for 2008, a decrease of 34.3%. The respective year-over-year declines are due to a combination of lower overall revenues and additional units outstanding for the current year.
- CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 28% for the three months ended December 31, 2009, up from 21% for the three months ended December 31, 2008. CES' 2009 estimated market share in Western Canada averaged 25% as compared to 21% during 2008. The year-over-year market share increases are reflective of CES' solutions which are focused on the major resource plays along with CES' service and execution. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 6,336 for the three month period ended December 31, 2009, a decrease of 23% from the 8,188 operating days during the fourth quarter of 2008. Year-to-date, operating days in Western Canada were estimated to total 19,953 compared to 30,660 during 2008, representing a decline of 35%. Overall industry activity dropped approximately 29.1% from an average monthly rig count in the fourth quarter of 2008 of 385 to 273 during the fourth quarter of 2009 based on CAODC published monthly data for Western Canada. For 2009, the CAODC average monthly rig count for Western Canada averaged 218 as compared to 336 in 2008 representing a year-over-year decline of 35.1%.
- Revenue from drilling fluids related sales of products and services in Western Canada was \$18.5 million for the three months ended December 31, 2009, compared to \$32.3 million for the three months ended December 31, 2008, representing a decrease of \$13.8 million or 42.7%. For the year ended December 31, 2009, revenue from drilling fluids related sales of products and services in Western Canada was \$66.9 million as compared to \$104.6 million for the year ended December 31, 2008, representing a decrease of \$37.7 million or 36.0%.
- For the three months ended December 31, 2009, revenue generated in the US from drilling fluid sales of products and services was \$3.4 million with an estimated 832 operating days (refer to "Operational Definitions") as compared to last year's revenue of \$1.2 million with an estimated 184 operating days during the same period. For 2009, revenue generated in the US totalled \$6.3 million as compared to \$4.7 million in the previous year. Total operating days for 2009 in the US were 1,364 as compared to 732 during 2008. The respective increases in activity and revenue in the US in 2009 over 2008 are a result of an improvement in drilling activity in the last half of 2009, and the Acquisition resulting in the inclusion of one month of Champion activity during 2009.
- During the fourth quarter of 2009, revenue from trucking operations, gross of intercompany eliminations, totalled \$2.8 million, an increase of \$0.5 million from \$2.3 million for the three months ended December 31, 2008. For 2009, revenue from trucking operations, gross of intercompany eliminations, totalled \$8.1 million as compared to \$5.9 million during 2008 representing an annual increase of \$2.2 million. The respective increases are due primarily to the expansion of trucking operations in Saskatchewan.
- The Clear environmental business generated \$2.8 million of revenue for the three month period ended December 31, 2009 while revenue from Clear for the year ended December 31, 2009 totalled \$9.0 million. In 2008, Clear revenue during the fourth quarter totalled \$5.7 million and for the period from the date of acquisition (June 12, 2008) through to December 31,

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2008 totalled \$10.5 million. Decreased activity in shallow gas drilling in 2009 resulted in lower revenue in the fourth quarter.

- For the three month period ended December 31, 2009, CES recorded gross margin of \$9.2 million or 33.5% of revenue, compared to gross margin of \$12.0 million or 28.9% of revenue generated in the same period last year. Year-over-year, Q4 margins were higher primarily due to lower overall invert sales as a percentage of revenue. Invert has a lower gross margin as compared to other product margins of CES. During 2009, the CES achieved a gross margin of \$26.7 million or 29.9% of revenue compared to \$36.7 million or 29.3% of revenue in 2008 which is consistent to the prior year comparison on a percentage basis.
- For the three month period ended December 31, 2009, selling, general, and administrative costs were \$4.8 million as compared to \$5.5 million for the same period in 2008. Included in general and administrative expenses for Q4 2009 was one-time transaction expenses of \$0.6 million associated with the Conversion transaction. The one-time transaction costs related to the Conversion were required to be expensed under current accounting standards. Excluding these one-time costs selling, general, and administrative costs for the fourth quarter were \$4.2 million. Year-over-year, fourth quarter selling, general, and administrative costs have declined primarily as a result of the cost reductions made by CES earlier in the year in response to lower activity levels and industry conditions. For the year ended December 31, 2009, selling, general, and administrative costs were \$16.8 million as compared to \$16.1 million for the same period in 2008. Selling, general, and administrative costs for the year are higher on a year-over-year comparison due to a combination of factors including the Clear business unit's inclusion for the full year in the current year balances, the inclusion of Champion division costs, and the one-time Conversion transaction costs. Selling, general, and administrative costs increased by \$0.7 million or 17% in Q4 2009 to \$4.8 million from \$4.1 million in Q3 2009. This quarterly increase is mainly the result of including the one-time transaction costs of the Conversion and the inclusion of Champion for the month of December. CES continues to manage selling, general, and administrative costs in light of prevailing market conditions.
- EBITDAC (refer to the "Non-GAAP Measures") for the three months ended December 31, 2009 was \$4.4 million as compared to \$6.3 million for the three months ended December 31, 2008 representing a decrease of \$1.9 million or 30.4%. For the year ended December 31, 2009, EBTIDAC totalled \$9.9 million as compared to \$20.3 million in 2008 representing a decrease of \$10.4 million or 51.2%. For Q4 2009, EBTIDAC was negatively impacted by \$0.6 million of one-time costs relating to the Conversion.
- CES recorded a net profit of \$5.9 million for the three month period ended December 31, 2009 as compared to a net profit of \$4.7 million in the prior year. CES recorded net basic earnings per unit of \$0.51 (diluted \$0.50) for the three months ended December 31, 2009 versus net earnings per unit of \$0.42 (basic and diluted) in 2008. For the year ended December 31, 2009, CES recorded net earnings of \$7.5 million, a decrease of 50.5% from the \$15.2 million generated for the same period last year. For the year, basic net earnings per unit were \$0.67 (diluted \$0.66), as compared with \$1.46 (basic and diluted) per unit for the same period in 2008, representing a decrease of \$0.80 or 54.8% on a per unit basis. Fourth quarter, net earnings were higher than last year due primarily to a large future income tax recovery recognized during the fourth quarter of 2009. Adjusting for this future income tax recovery, net earnings during the fourth quarter would have been lower on a year-over-year basis as a result of lower overall revenues due to lower industry activity levels. For the year-to-date period, the decline in earnings per unit is due to a combination of lower net earnings, higher general and administrative costs for the period, and additional units outstanding during the period as compared to 2008.
- CES continued to maintain a strong balance sheet at December 31, 2009 with net working capital of \$11.3 million (December 31, 2008 - \$15.8 million, December 31, 2007 - \$7.6 million). The decline in working capital from 2008 is due to the lower overall activity in 2009 compared to 2008. At December 31, 2009, CES had drawn \$8.8 million on its operating facility (December 31, 2008 - \$12.7 million, December 31, 2007 - \$4.5 million). The maximum available draw on the \$30.0 million facility at December 31, 2009, based on the accounts receivable and inventory balances, was \$20.9 million.
- CES maintained its monthly distributions throughout 2009 at \$0.0792 per Class A Unit per month. A total aggregate distribution of \$0.2376 per Class A Unit was paid during the fourth quarter. Total distributions during 2009 remained consistent with 2008 at \$0.9504 per Class A Unit. During the fourth quarter, the payout ratio averaged 77.4% as compared to 47.7% last year. For 2009, the payout ratio averaged 121.6% as compared to 52.7% during 2008. The determination of the payout ratio does not take into account changes in non-cash operating working capital items. Since CES' inception in 2006, CES maintained its distribution at \$0.0792 per Class A Unit per month. Management and the Board of Directors review the appropriateness of distributions on a monthly basis taking into account industry conditions, growth opportunities

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requiring expansion capital, and management's forecast of distributable funds. In conjunction with the Conversion transaction, CES announced a targeted monthly dividend of \$0.06 per common share starting in January 2010. Although CES intends to make dividends to shareholders at this targeted amount, these dividends are not guaranteed. (See "Funds Flow from Operations").

RESULTS FOR THE PERIODS

(\$000's, except per unit amounts)	Three Months Ended December 31,			
	2009	2008	\$ Change	% Change
Revenue	27,303	41,385	(14,082)	(34.0%)
Cost of sales	18,143	29,405	(11,262)	(38.3%)
Gross margin ⁽¹⁾	9,160	11,980	(2,820)	(23.5%)
Gross margin percentage of revenue ⁽¹⁾	33.5%	28.9%		
Selling, general, and administrative expenses ⁽⁵⁾	4,773	5,525	(752)	(13.6%)
Amortization	926	1,086	(160)	(14.7%)
Unit-based compensation	124	492	(368)	(74.8%)
Interest expense	204	228	(24)	(10.5%)
Foreign exchange gain	(40)	(108)	68	(63.0%)
Financial derivative loss	40	-	40	N/A
Loss on disposal of assets	41	12	29	241.7%
Net earnings before taxes	3,092	4,745	(1,653)	(34.8%)
Future income tax (recovery) expense	(2,765)	30	(2,795)	N/M
Net earnings	5,857	4,715	1,142	24.2%
Net earnings per unit – basic	0.51	0.42	0.09	21.4%
Net earnings per unit – diluted	0.50	0.42	0.08	19.0%
EBITDAC ⁽¹⁾⁽³⁾	4,373	6,282	(1,909)	(30.4%)
Partnership Units Outstanding	2009	2008 ⁽²⁾		% Change
End of period	12,417,573	11,169,801		11.2%
Weighted average				
- basic	11,576,203	11,167,794		3.7%
- diluted	11,765,132	11,167,794		5.3%

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² Includes Class A Units and Subordinated Class B Units.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁵ For the three months ended December 31, 2009 and year-ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

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(\$000's, except per unit amounts)	Year Ended December 31,			
	2009	2008	\$ Change	% Change
Revenue	89,454	125,069	(35,615)	(28.5%)
Cost of sales	62,742	88,373	(25,631)	(29.0%)
Gross margin ⁽¹⁾	26,712	36,696	(9,984)	(27.2%)
Gross margin percentage of revenue ⁽¹⁾	29.9%	29.3%		
Selling, general, and administrative expenses ⁽⁵⁾	16,754	16,112	642	4.0%
Amortization	3,526	2,601	925	35.6%
Unit-based compensation	827	2,097	(1,270)	(60.6%)
Interest expense	478	586	(108)	(18.4%)
Foreign exchange (gain)	(13)	(48)	35	(72.9%)
Financial derivative loss	55	-	55	N/A
Loss on disposal of assets	110	37	73	197.3%
Net earnings before taxes	4,975	15,311	(10,336)	(67.5%)
Future income tax (recovery) expense	(2,540)	125	(2,665)	N/M
Net earnings	7,515	15,186	(7,671)	(50.5%)
Net earnings per unit – basic	0.67	1.46	(0.79)	(54.1%)
Net earnings per unit – diluted	0.66	1.46	(0.80)	(54.8%)
EBITDAC ⁽¹⁾⁽³⁾	9,940	20,349	(10,409)	(51.2%)

Financial Position (\$000's)	As at		
	December 31, 2009	December 31, 2008	December 31, 2007
Net working capital	11,347	15,825	7,552
Total assets	130,699	125,261	77,070
Long-term financial liabilities ⁽⁴⁾	2,557	3,474	1,289
Unitholders' equity	92,534	76,978	53,047

Partnership Units Outstanding	Year Ended December 31,		
	2009	2008 ⁽²⁾	2007 ⁽²⁾
End of period	12,417,573	11,169,801	9,380,946
Weighted average			
- basic	11,267,540	10,391,369	9,152,574
- diluted	11,314,075	10,391,369	9,166,542

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² Includes Class A Units and Subordinated Class B Units.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ Vehicle financing and committed loans excluding current portion.

⁵ For the three months ended December 31, 2009 and year-ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

Revenue and Operating Activities

CES generated revenue of \$27.3 million for the three months ended December 31, 2009, as compared with \$41.4 million for the three months ended December 31, 2008, representing a decrease of \$14.1 million or 34.0%. The significant decrease in overall revenue on a year over year basis is a reflection of the dramatic decline in drilling activity in the WCSB during the current year and is reflective of the 34% decrease in CES' Canadian operating days during the year. During 2009, CES generated total revenue of \$89.5 million as compared to \$125.1 million during the same period last year representing a decline of \$35.6 million or 28.5%.

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Of the revenue generated during the fourth quarter of 2009, \$18.5 million (2008 - \$32.3 million) was generated in the Western Canada drilling fluids business; \$3.4 million (2008 - \$1.2 million) was generated in the US drilling fluids business; \$2.8 million (2008 - \$5.7 million) was contributed by the Clear environmental division, and \$2.8 million, gross of intercompany eliminations, (2008 - \$2.3 million) was generated by trucking operations.

For the year ended December 31, 2009, \$66.9 million (2008 - \$104.6 million) was generated in the Western Canada drilling fluids business; \$6.3 million (2008 - \$4.7 million) was generated in the US drilling fluids business; \$9.0 million (2008 - \$10.5 million) was contributed by the Clear environmental division (which was acquired in June 2008), and \$8.1 million, gross of intercompany eliminations, (2008 - \$5.9 million) was generated by trucking operations.

The active CAODC monthly rig count in Western Canada averaged 273 for the three months ended December 31, 2009 based on CAODC published monthly data for Western Canada. This is a 29.1% decrease from the average rig count of 385 during the final quarter of 2008. For 2009, the CAODC average monthly rig count for Western Canada averaged 218 as compared to 336 in 2008 representing a year-over-year decline of 35.1%.

CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 28% for the three months ended December 31, 2009 from 21% for the three months ended December 31, 2008. Year-to-date, CES' estimated market share in Western Canada averaged 25% compared to 21% during 2008. CES' technology focused solutions have resulted in an increased market share in Western Canada as a larger percentage of drilling activity is focused on deep and horizontal wells and the economics of drilling have become more difficult for operators.

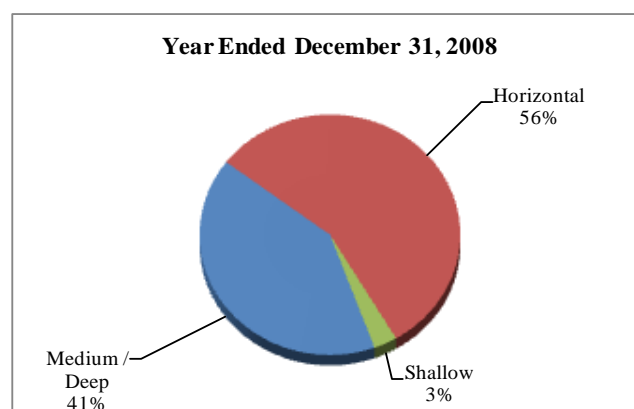
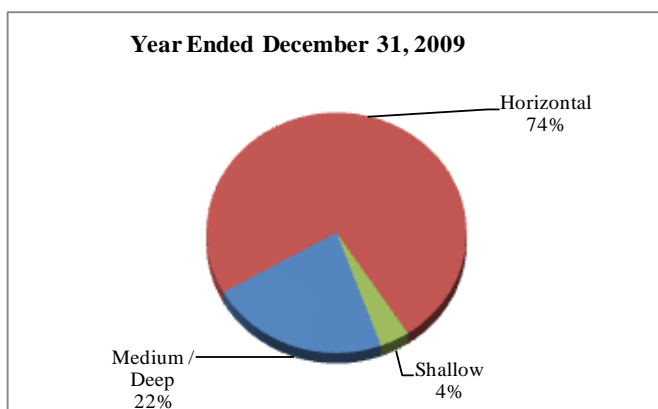
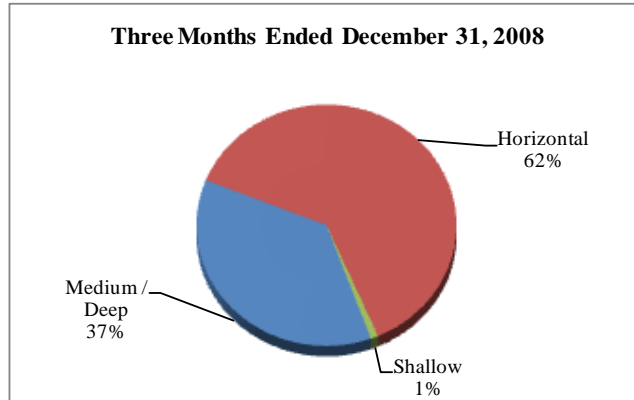
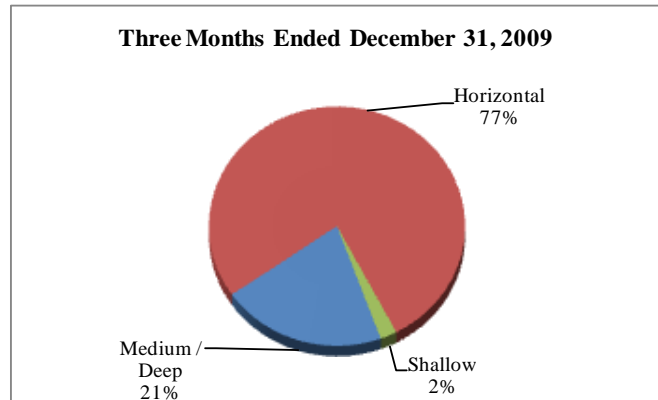
For the year ended December 31, 2009, the top five customers of CES accounted for approximately 27% of total revenue (2008 - 29%). During the fourth quarter, CES top five customers accounted for 27% of total revenue as compared to 34% in Q4 2008. During 2009, CES' largest customer, a large independent exploration and production company, accounted for approximately 12% of the CES' 2009 revenue (Q4 2009 - 7%) as compared to 11% in 2008 (Q4 2008 - 11%).

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

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Canada	6,336	8,188	19,953	30,660
USA	832	184	1,364	732
Total Operating Days	7,168	8,372	21,317	31,392

Overall, CES' drilling fluid business continued to focus on resource plays and in particular the medium to deep drilling and horizontal drilling. Over the last year, horizontal drilling has represented a significantly increasing share of CES' revenue composition as customers continue to apply the technique more frequently in drilling more complex wells. For the three months ended December 31, 2009, medium and deep drilling represented 21% (2008 - 37%) of drilling fluids revenue and horizontal wells represented 77% (2008 - 62%) of drilling fluids revenue. During 2009, medium and deep drilling represented 22% (2008 - 41%) of drilling fluids revenue and horizontal wells represented 74% (2008 - 56%) of drilling fluids revenue. 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. The following charts illustrate the CES' estimated revenue from its drilling fluids business by well type in CES' targeted areas:

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Cost of Sales and Gross Margin

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

CES achieved gross margin of \$9.2 million or 33.5% of revenue for the three month period ended December 31, 2009 as compared to \$12.0 million or 28.9% of revenue in the fourth quarter of 2008. Year-over-year, the fourth quarter 2009 margins were higher primarily due to lower overall invert sales as a percentage of revenue in the current year; invert has a much lower gross margin as compared to other product margins of CES and other cost management initiatives implemented during 2009. During 2009, CES achieved a gross margin of \$26.7 million or 29.9% of revenue compared to \$36.7 million or 29.3% of revenue last year. Throughout the global economic downturn in 2009, CES focused on maintaining margin integrity by pursuing more effective procurement strategies, maintaining lower overall inventory balances, and implementing other cost management initiatives in order to reduce input costs.

Cost of labour has less of an impact on the CES' margins. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services. CES manages staffing levels carefully to match overall staffing to prevailing activity levels. At December 31, 2009, the headcount of field staff was 104 as compared to 82 at September 30, 2009 and 101 at December 31, 2008. The increased field staff head count at December 31, 2009 in part reflects the addition of employees as part of the Champion acquisition and a pick-up in industry activity from Q3 2009.

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

SG&A for the three month period ended December 31, 2009 was \$4.8 million as compared to \$5.5 million for the same period in 2008 representing a decrease of \$0.7 million or 13.6% year-over-year. Included in general and administrative expenses in the fourth quarter were one-time transaction expenses of \$0.6 million associated with the Conversion. Excluding these one-time costs selling, general, and administrative costs for fourth quarter were \$4.2 million. Year-over-year, fourth quarter selling, general, and administrative costs have declined primarily as a result of the cost reductions made by CES earlier in the year in

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response to lower activity levels and industry conditions. For the year ended December 31, 2009, selling, general, and administrative costs were \$16.8 million as compared to \$16.1 million for the same period in 2008. Selling, general, and administrative costs for the year are higher on a year-over-year comparison due to a combination of factors including the Clear business unit's inclusion for the full year in the current year balances, the inclusion of Champion division costs, and the one-time Conversion transaction costs. Selling, general, and administrative costs increased by \$0.7 million or 17% in Q4 2009 to \$4.8 million from \$4.1 million in Q3 2009. This quarterly increase is mainly the result of including the one-time transaction costs of the Conversion and the inclusion of Champion. CES' office headcount totalled 70 at December 31, 2009 as compared to 63 as at September 30, 2009 and 70 as at December 31, 2008.

Amortization

Amortization of property, equipment, and intangibles totalled \$0.9 million for the three month period ended December 31, 2009 in comparison to \$1.1 million during 2008. The year-over-year decrease in depreciation is due in part to the accelerated depreciation of certain assets during the fourth quarter of 2008. For the year ended December 31, 2009, amortization expense totalled \$3.5 million as compared to \$2.6 million last year. The year-over-year increase in depreciation expenses is primarily attributable to the expanded operations of CES compared to last year including additional trucks and trailers for the trucking division and the increase in amortization of intangible assets relating to the Partnership's acquisition of Clear in 2008 and Champion in December of 2009.

Unit-based Compensation

Unit-based compensation was \$0.1 million for the three months ended December 31, 2009 as compared to \$0.5 million during the same period last year. For 2009, unit-based compensation expense totalled \$0.8 million as compared to \$2.1 million during the same period last year. The respective year-over-year decline is primarily attributable to the Distribution Rights Plan which was implemented in May 2008 and was being amortized over the remaining vesting periods of the unit options which ended in March 2009 and a grant under the Unit Bonus Plan during the second quarter of 2008.

Interest Expense

CES had interest expense of \$0.2 million for the three months ended December 31, 2009 including a one-time charge of \$0.07 million with respect to the Debenture in December, compared to \$0.2 million for Q4 in 2008. For 2009, interest expense totalled \$0.5 million as compared to \$0.6 million in 2008. The respective year-over-year declines are attributable to a combination of lower overall interest rates and lower average borrowings on CES' various debt facilities as compared to last year. Interest expense consists of interest expense on vehicle financing loans, the committed facilities, and the operating loan facility.

Foreign Exchange Gain and Losses

For the year ended December 31, 2009, CES recorded a foreign exchange gain of \$0.01 million. The net foreign exchange gain primarily relates to the translation of CES' US subsidiary AES Drilling Fluids, LLC's operations which uses the US dollar as its functional currency.

Realized and Unrealized Derivative Losses

For the three month period and year ended December 31, 2009, CES recorded a realized loss of \$0.04 million and \$0.04 million (2008 - \$Nil and \$Nil respectively) relating to its foreign currency derivative contracts. For the three month period and year ended December 31, 2009, CES recorded an unrealized loss of \$0.002 million and \$0.011 million respectively (2008 - \$Nil and \$Nil respectively) relating to its foreign currency derivative contracts. The losses were incurred as a result of the relative appreciation of the US\$ dollar vis-à-vis the Canadian dollar over the year. As at December 31, 2009, CES had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases of products to be resold into the Canadian market.

Period	Notional Balance \$000's	Contract Type	Settlement	Average C\$/US\$ Exchange Rate
January 2010	US\$310	Deliverable Forward	Physical Purchase	\$1.0524
February 2010	US\$727	Deliverable Forward	Physical Purchase	\$1.0542
March 2010	US\$176	Deliverable Forward	Physical Purchase	\$1.0613
April 2010	US\$177	Deliverable Forward	Physical Purchase	\$1.0525
Total	US\$1,390			\$1.0545

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Future Income Taxes

For the year-ended December 31, 2009, the income earned directly by the Partnership was taxed at the Partnership unitholder level. As a result, provisions for current income tax have not been made by CES. Effective January 1, 2010, as a result of the Conversion, CES converted from a Canadian limited partnership structure to a corporate structure. Effective January 1, 2010, CES will be subject to federal and provincial income taxes in Canada at a corporate level to the extent they are not sheltered by existing tax pools. As CES will be subject to tax, future income taxes have been recorded relating to temporary differences expected to reverse after this date.

During the fourth quarter, CES recognized a future income tax recovery of \$2.8 million. Of this, \$0.8 million relates to the accelerated recognition of the reversal of the temporary differences as a result of the Conversion transaction in which temporary differences are expected to start reversing as of January 1, 2010 as opposed to CES' previous estimate of January 1, 2011. A further \$1.9 million of this future income tax recovery relates to the recognition of future income non-capital tax loss assets in the operations of the CES' US subsidiary, AES Drilling Fluids LLC. Prior to the fourth quarter of 2009, this asset was not recognized as a provision was recorded for the entire amount based on the uncertainty regarding the realization. The non-capital loss carry forwards expire in 2027 and beyond.

At December 31, 2009, CES recorded a total net future income tax liability of \$1.2 million relating to CES' Canadian operations and a total net future income tax asset of \$1.9 million relating to CES' US operations.

Net Working Capital

CES' net working capital at December 31, 2009 totalled \$11.3 million as compared to \$15.8 million at December 31, 2008 (December 31, 2007 - \$7.6 million). The year-over-year decrease of \$4.5 million in net working capital is primarily a result of the lower level of activity during 2009 relative to 2008.

Total Current Assets

Total current assets of CES declined from \$58.6 million at December 31, 2008 to \$45.7 million at December 31, 2009. The year-over-year decline is primarily due to a decline in accounts receivable balances of \$12.0 million and a decline of \$0.9 million in inventory balances as a result of lower overall activity during 2009 versus 2008.

Total Long-term Assets

Total long-term assets of CES increased by \$18.4 million at December 31, 2009 to \$85.0 million from \$66.6 million at December 31, 2008 (December 31, 2007 \$48.9 million). Of the \$18.4 million increase during 2009, notable changes include: (i) \$11.3 million increase in goodwill relating to the Champion acquisition; (ii) \$1.9 million increase in future income tax asset relating to the recognition of non-capital loss assets not previously recognized; (iii) a net increase in intangible assets of \$3.0 million relating to the \$4.0 million addition of customer relationships from the Champion transaction offset by amortization; and (iv) a net \$2.0 million increase in fixed assets primarily relating to the expansion of CES' trucking operations.

Long-Term Financial Liabilities

CES had long-term financial liabilities totalling \$2.6 million at December 31, 2009 compared to \$3.5 million at December 31, 2008 (December 31, 2007 - \$1.3 million), for a reduction of \$0.9 million during the year. During the three month period ended December 31, 2009, long-term scheduled debt repayments totalling \$0.3 million were made. At December 31, 2009, long-term financial liabilities were comprised of vehicle financing loans totalling \$1.5 million and committed facilities totalling \$2.2 million, net of the current portion of long-term debt of \$1.1 million.

Subordinated Convertible Debenture

In conjunction with the Acquisition, the Debenture was issued by CES. Under the guidance of CICA Handbook Section 3863, the Debenture has been classified as an equity instrument. The Debenture was not bifurcated into debt and equity components and no portion of the Debenture is classified as a debt instrument. The face value of the Debenture was \$6.6 million with fixed conversion price of C\$8.37 per CES common share and paid interest monthly at 12% per annum. The Debenture was subject to forced conversion into 791,776 common shares of CES upon the Conversion. The Conversion became effective January 1, 2010 and the Debenture was converted into common shares on January 4, 2010. The common shares issued on the Conversion are subject to escrow provisions, with one-third of the escrowed shares being released, subject to industry standard exceptions including a change of control of CES, on each of the first, second and third anniversaries after closing of the Acquisition.

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Unitholder's Equity

Unitholders' equity increased from \$77.0 million at December 31, 2008 (December 31, 2007 - \$53.0 million) to \$92.5 million at December 31, 2009. The year-over-year change in unitholder's equity during the period is primarily attributable to \$7.5 million in net earnings of CES, \$1.8 million relating to the issuance of 223,054 Class A Units of the Partnership in partial settlement of the Clear earn-out, \$9.6 million relating to the private placement issuance of one million Class A Units on December 15, 2009, \$6.6 million relating to the issuance of the Debenture and its classification as an equity instrument, and \$0.6 million net increase in contributed surplus as a result of unit-based compensation expense in 2009. The additions are offset by total distributions of \$10.8 million made by the Partnership during the 2009.

Goodwill Impairment

At December 31, 2009, CES completed its annual goodwill impairment test. Management estimated the fair value of CES' drilling fluids and Clear business units using a number of industry accepted valuation methodologies including discounted future cash flows, comparable industry valuation multiples, recent trading activity and capital market pricing of the CES' units. At December 31, 2009, management concluded that the carrying value of goodwill was less than the estimated fair value and therefore no reduction in the carrying value was required.

SEGMENTED RESULTS

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

Three Months Ended December 31, 2009

<i>Segmented Information (\$000's)</i>	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	21,895	2,827	2,846	(265)	27,303
Cost of sales	14,957	1,630	1,821	(265)	18,143
Gross margin	6,938	1,197	1,025	-	9,160
Net earnings before taxes	2,112	613	367	-	3,092
EBITDAC ⁽¹⁾⁽³⁾⁽⁴⁾	2,900	924	549	-	4,373

Three Months Ended December 31, 2008

<i>Segmented Information (\$000's)</i>	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	33,539	2,292	5,697	(143)	41,385
Cost of sales	24,489	1,353	3,706	(143)	29,405
Gross margin	9,050	939	1,991	-	11,980
Net earnings before taxes	2,827	708	1,210	-	4,745
EBITDAC ⁽¹⁾⁽³⁾	4,010	866	1,406	-	6,282

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² The Environmental Services segment is comprised of the CES' environmental division, Clear Environmental Solutions, which was acquired on June 12, 2008 and as such comparative figures for 2008 represent operations from June 12, 2008 through December 31, 2008.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ For the three months ended December 31, 2009 and year-ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

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<i>Segmented Information (\$000 's)</i>	Year Ended December 31, 2009				
	Drilling Fluids	Trucking	Environmental Services	Intercompany Eliminations	Total
Revenue	73,148	8,117	9,004	(815)	89,454
Cost of sales	52,362	5,515	5,680	(815)	62,742
Gross margin	20,786	2,602	3,324	-	26,712
Net earnings before taxes	3,499	835	641	-	4,975
EBITDAC ^{(1) (3) (4)}	6,678	1,897	1,365	-	9,940

<i>Segmented Information (\$000 's)</i>	Year Ended December 31, 2008				
	Drilling Fluids	Trucking	Environmental Services ⁽²⁾	Intercompany Eliminations	Total
Revenue	109,362	5,852	10,451	(596)	125,069
Cost of sales	78,671	3,415	6,883	(596)	88,373
Gross margin	30,691	2,437	3,568	-	36,696
Net earnings before taxes	11,687	1,715	1,909	-	15,311
EBITDAC ^{(1) (3)}	15,812	2,174	2,363	-	20,349

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² The Environmental Services segment is comprised of the CES' environmental division, Clear Environmental Solutions, which was acquired on June 12, 2008 and as such comparative figures for 2008 represent operations from June 12, 2008 through December 31, 2008.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ For the three months ended December 31, 2009 and year-ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

Drilling Fluids Segment

For the three months ended December 31, 2009, revenue from the Drilling Fluids segment totalled \$21.9 million compared to \$33.5 million for the three months ended December 31, 2008 representing a decrease of \$11.6 million or 34.7%. For 2009, revenue from the Drilling Fluids segment totalled \$73.1 million as compared to \$109.4 million last year representing a decline of \$36.2 million or 33.1% on a year-over-year basis. The decline in revenues reflects the decline in overall industry activity in 2009 relative to 2008 offset by increased market share gains achieved by CES during 2009.

CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 28% for the three months ended December 31, 2009, up from 21% for the three months ended December 31, 2008. Year-to-date, the CES' estimated market share in Western Canada averaged 25% as compared to 21% during 2008. The year-over-year market share increases are reflective of CES' solutions which are focused on the major resource plays along with the CES' service and execution. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 6,336 for the three month period ended December 31, 2009, a decrease of 23% from the 8,188 operating days during the fourth quarter of 2008. Year-to-date, operating days in Western Canada were estimated to total 19,953 compared to 30,660 during 2008, representing a decline of 35%. Overall industry activity dropped approximately 29.1% from an average monthly rig count in the fourth quarter of 2008 of 385 to 273 during the fourth quarter of 2009 based on CAODC published monthly data for Western Canada. For 2009, the CAODC average monthly rig count for Western Canada averaged 218 as compared to 336 in 2008 representing a year-over-year decline of 35.1%.

For the three months ended December 31, 2009, revenue generated in the US from drilling fluids related sales of products and services was \$3.4 million with an estimated 832 operating days (refer to "Operational Definitions") as compared to revenue of \$1.2 million with an estimated 184 operating days for same period last year. For 2009, revenue generated in the US totalled \$6.3 million as compared to \$4.7 million last year.

Gross margin for the Drilling Fluids segment was \$6.9 million or 31.7% for the three months ended December 31, 2009, which increased on a percentage basis, from the 27.0% gross margin generated in 2008 due primarily to lower invert sales as a total of overall sales. During 2009, CES achieved a comparable gross margin of 28.4% with the 28.1% in 2008.

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Trucking Segment

During 2009, the Trucking segment has been focused on expansion in the south-eastern Saskatchewan region to service the Bakken resource play.

Revenue from the Trucking segment, gross of intercompany eliminations, was \$2.8 million for the three month period ended December 31, 2009 as compared to \$2.3 million during last year. For 2009, the Trucking segment has total revenue, gross of intercompany eliminations, of \$8.1 million as compared to \$5.9 million during 2008. During the fourth quarter, gross margin for the Trucking segment was \$1.2 million or 42.3% of revenue compared to last year's gross margin of \$0.9 million or 41.0%. During 2009, the gross margin from the Trucking segment totalled \$2.6 million with an average gross margin of 32.1% for 2009 as compared to \$2.4 million or 41.6% during 2008. Year-over-year, trucking margins were negatively affected by an increasing amount of work in south-eastern Saskatchewan which is operated at a lower overall margin.

Environmental Services Segment

Revenue from the Environmental Services segment was \$2.8 million for the three month period ended December 31, 2009 as compared to \$5.7 million generated in the fourth quarter of 2008. During the fourth quarter of 2009, gross margin for the Environmental segment was \$1.0 million or 36.0% of revenue compared to the fourth quarter of 2008 gross margin of \$2.0 million or 34.9%. During 2009, revenue has totalled \$9.0 million for the Environmental Services segment. During 2008, total revenue was \$10.5 million, however, Clear was acquired in June 2008 and therefore prior year figures represent less than seven months of operations. Year-to-date, the gross margin from the Environmental Services segment has averaged 36.9% for 2009 as compared to 34.1% during the shortened period in 2008. During 2009, the Environmental Services has been negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. The Environmental Services division has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling.

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QUARTERLY FINANCIAL SUMMARY

(\$000's, except per unit amounts)	Three Months Ended			
	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009
Revenue	27,303	19,219	12,634	30,298
Gross margin ⁽¹⁾	9,160	6,085	3,422	8,045
Net earnings (loss) ⁽⁴⁾	5,857	718	(1,214)	2,154
<i>per unit – basic</i> ⁽²⁾	0.51	0.06	(0.11)	0.19
<i>per unit – diluted</i> ⁽²⁾	0.50	0.06	(0.11)	0.19
EBITDAC ⁽¹⁾⁽³⁾⁽⁴⁾	4,373	2,004	(45)	3,608
<i>per unit – basic</i> ⁽²⁾	0.38	0.18	-	0.33
<i>per unit – diluted</i> ⁽²⁾	0.37	0.18	-	0.33
Funds flow from operations ⁽¹⁾⁽³⁾	4,169	1,922	(94)	3,465
<i>per unit – basic</i> ⁽²⁾	0.36	0.17	(0.01)	0.31
<i>per unit – diluted</i> ⁽²⁾	0.35	0.17	(0.01)	0.31
Distributions declared	2,787	2,683	2,647	2,642
<i>per Class A Unit</i>	0.2376	0.2376	0.2376	0.2376
<i>per Subordinated Class B Unit</i>	-	-	-	0.2376
Partnership Units Outstanding ⁽²⁾				
End of period	12,417,573	11,378,055	11,140,301	11,119,801
Weighted average – basic	11,576,203	11,224,912	11,140,301	11,124,245
Weighted average – diluted	11,765,132	11,297,312	11,140,301	11,144,745

(\$000's, except per unit amounts)	Three Months Ended			
	Dec 31, 2008	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008
Revenue	41,385	40,850	14,560	28,274
Gross margin ⁽¹⁾	11,980	12,188	3,559	8,969
Net earnings (loss)	4,715	6,244	(1,055)	5,282
<i>per unit – basic and diluted</i> ⁽²⁾	0.42	0.56	(0.11)	0.56
EBITDAC ⁽¹⁾⁽³⁾	6,282	7,630	571	5,866
<i>per unit – basic and diluted</i> ⁽²⁾	0.56	0.68	0.06	0.61
Funds flow from operations ⁽¹⁾⁽³⁾	6,054	7,518	474	5,717
<i>per unit – basic and diluted</i> ⁽²⁾	0.57	0.67	0.05	0.61
Distributions declared	2,653	2,653	2,371	2,229
<i>per Class A Unit</i>	0.2376	0.2376	0.2376	0.2376
<i>per Subordinated Class B Unit</i>	0.2376	0.2376	0.2376	0.2376
Partnership Units Outstanding ⁽²⁾				
End of period	11,169,801	11,166,870	11,166,370	9,380,946
Weighted average – basic	11,167,794	11,166,513	9,822,070	9,380,946
Weighted average – diluted	11,167,794	11,230,889	9,822,070	9,382,281

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² Includes Class A Units and Subordinated Class B Units during quarterly periods ending Mar 31, 2008 through Mar 31, 2009

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ For the three months ended December 31, 2009, includes \$0.6 million of one-time Conversion related transaction costs

Management Discussion & Analysis
Year Ended December 31, 2009

Seasonality of Operations

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

LIQUIDITY AND CAPITAL RESOURCES

CES had net working capital of \$11.3 million at December 31, 2009 compared to \$15.8 million at December 31, 2008. The decline of \$4.5 million is due to the lower overall level of activity during the fourth quarter of 2009 as compared to the fourth quarter of 2008.

As previously disclosed, during 2009, CES completed its annual review of its existing credit facilities. CES was successfully able to renew, and increase, its overall debt facilities. In line with prevailing market conditions, the renewed facilities included slightly higher overall borrowing interest rates compared to last year when the facilities were originally placed. The higher overall borrowing rates on these facilities are reflective of tighter overall global credit market conditions at the time of the review. The covenants, terms, and conditions of the facilities remained substantially similar to the previous terms.

CES has a revolving demand loan facility with a maximum available draw of \$30.0 million. The maximum draw available under the facility is subject to the value of certain accounts receivable and inventory balances. As at December 31, 2009, CES had total bank indebtedness drawn on the facility of \$8.8 million compared to \$12.7 million at December 31, 2008. The maximum calculated available draw on the facility was \$20.9 million at December 31, 2009 based on the value of CES' accounts receivable and inventory balances. The facility bears interest at the bank's prime rate plus 1.25% and has a standby rate of 0.35% on any unused portion of the facility.

CES has two committed loan facilities:

1. A \$1.6 million non-revolving committed loan facility. As of December 31, 2009, there was \$1.5 million outstanding (December 31, 2008 - \$1.6 million) on the loan. The loan is repayable in fixed monthly principal payments of \$9,725 plus interest at the bank's prime rate plus 1.40%. The loan has an initial term of five years, with the bank reserving the right to extend the term by two additional five year periods at its discretion.
2. A \$0.8 million non-revolving committed loan facility. As of December 31, 2009, there was \$0.7 million outstanding (December 31, 2008 - \$0.9 million) on the loan. The loan is repayable over five years in fixed monthly principal payments of \$16,667 plus interest at the bank's prime rate of interest plus 1.40%.

CES also has a \$2.0 million non-revolving demand loan facility to finance new and existing property and equipment. The facility bears interest at the bank's prime rate of interest plus 1.40%. Any draws made on the facility are to be repaid in equal instalments over a period of 48 months plus interest at the bank's prime rate of interest plus 1.40%. As of December 31, 2009, and as of the date of this MD&A, this facility was undrawn.

Subsequent to year-end, the credit facilities were amended to add a \$5.0 million leasing facility ("Leasing Facility"). The ability to draw from the Leasing Facility, the repayment terms and the interest costs are all to be determined by the lender at the time of the draw request. As of December 31, 2009, and as of the date of this MD&A, the Leasing Facility was undrawn.

The debt facilities, including the operating line, are secured by general security agreements creating a first priority security interest in all present and after-acquired personal property of CESTC, the General Partner, the Partnership and each of its subsidiaries, an unlimited corporate guarantee of the indebtedness, obligations and liabilities of the Partnership to the bank given by each of the General Partner, CESTC and each of the Partnership's subsidiaries, together with a demand collateral mortgage on CES' Edson, Alberta property.

These facilities impose the following financial covenants on CES:

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

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Year Ended December 31, 2009

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

If CES does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from paying any dividends to shareholders without prior written consent of the lender. As at December 31, 2009, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

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

Vehicle financing loans are secured by each related vehicle and incur interest at rates up to 13% (with a weighted average rate of 6.40%) and have terms ranging from October 2009 to December 2012. At December 31, 2009, outstanding vehicle loans totalled \$1.5 million compared to \$2.3 million at December 31, 2008.

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. CES continually assesses its requirements for capital on an on-going basis, however, there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. The turmoil in the financial markets since mid 2008 has negatively impacted the availability of both credit and equity in the marketplace. Although financial markets have improved over the last year and a half, market conditions, in some cases, remain difficult to access. In the event that it is required, it may be difficult to issue additional equity or increase credit capacity and that the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions. In addition, despite the improvements in crude oil prices, natural gas prices continue to remain relatively weak resulting in an overall reduction in actual and forecasted levels of drilling activity in the WCSB and the United States. This in turn reduced the overall demand for CES' products and services in 2009, and despite recent increase in activity levels may continue for the foreseeable future. As a result, there has been a greater emphasis on evaluating credit capacity, credit counterparties, and liquidity by CES to ensure its ability to be able to meet its ongoing commitments and obligations.

Funds Flow from Operations

CES calculated distributable funds 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 distributions declared as follows:

<i>\$000's</i>	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Cash flow from operating activities	(2,133)	4,041	19,345	2,487
Change in non-cash operating working capital ⁽²⁾	6,302	2,013	(9,883)	17,276
Funds flow from operations ⁽¹⁾⁽³⁾	4,169	6,054	9,462	19,763
Maintenance capital ⁽⁴⁾	(568)	(489)	(612)	(961)
Distributable funds ⁽¹⁾⁽³⁾	3,601	5,565	8,850	18,802
Distributions declared	2,787	2,653	10,759	9,906
Payout ratio ⁽¹⁾⁽³⁾	77.4%	47.7%	121.6%	52.7%

Notes:

¹ Refer to the "Non-GAAP Measures" for further detail.

² See components of change in non-cash operating working capital balances below.

³ Prior year balances recomputed to conform to current year financial statement presentation.

⁴ Refer to the "Operational Definitions" for further detail.

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

\$000's	Three Months Ended		Year Ended December 31,	
	December 31, 2009	2008	2009	2008
<i>Operating activities</i>				
Decrease (increase) in current assets				
Accounts receivable	(13,137)	(133)	13,765	(23,662)
Inventory	(1,338)	1,990	1,902	(4,602)
Prepaid expenses	(23)	23	52	(207)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	8,196	(3,893)	(5,836)	11,195
	(6,302)	(2,013)	9,883	(17,276)
<i>Investing activities</i>				
Decrease (increase) in current assets				
Accounts receivable	(650)	-	(650)	-
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	984	(29)	1,128	(191)
	334	(29)	478	(191)

Distributable funds were \$3.6 million for the three months ended December 31, 2009 as compared to \$5.6 million for the same period in 2008. For the year ended December 31, 2009, distributable funds were \$8.9 million versus \$18.8 million for the same period in 2008. The year-over-year declines are representative of the lower overall activity during 2009 as compared to 2008. During the three months ended December 31, 2009, the Partnership declared monthly distributions of \$0.0792 per Class A Unit for a total quarterly distribution of \$0.2376 per unit.

During the fourth quarter, the payout ratio (refer to the "Non-GAAP Measures") was 77.4% compared to 47.7% the previous year. For 2009, the payout ratio has averaged 121.6% as compared to 52.7% in 2008. Throughout the course of the year, the actual payout ratio varies with the seasonality of CES' funds flow from operations. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Distributions 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, distributions may be funded through CES' surplus cash reserves or by accessing CES' credit facilities. Since CES' inception in 2006 through to December 2009, CES maintained its distribution at \$0.0792 per Class A Unit per month resulting in an inception to date payout ratio of 83%. In conjunction with the Conversion transaction, CES announced a targeted monthly dividend of \$0.06 per common share starting in January 2010. Although CES intends to make dividends to shareholders at this targeted amount, these dividends are not guaranteed.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation, current and anticipated industry conditions and, particularly, growth opportunities requiring expansion capital and management's forecast of distributable funds.

Management Discussion & Analysis
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The following chart summarizes CES' distributions in relation to Canadian GAAP performance measures:

<i>\$000's</i>	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Cash flow from operating activities	(2,133)	4,041	19,345	2,487
Distributions declared	(2,787)	(2,653)	(10,759)	(9,906)
Excess (shortfall) of cash flows from operating activities over distributions declared	(4,920)	1,388	8,586	(7,419)
Net earnings	5,857	4,715	7,515	15,186
Distributions declared	(2,787)	(2,653)	(10,759)	(9,906)
Excess (shortfall) of net earnings over distributions declared	3,070	2,062	(3,244)	5,280

The excess of cash flows from operating activities over distributions declared in the year ended December 31, 2009 is primarily a result of a focus by CES to reduce non-cash working capital notably through reducing its overall inventory balances and through the focused collection of accounts receivable balances. There was a shortfall of net earnings over distributions declared for both the year and three month period ended December 31, 2009 as a result of lower overall activities compared to last year. This has resulted in an increase in unitholder's equity deficit during the period.

Although at this time the 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.

Subsequent to December 31, 2009, CES declared a monthly dividend of \$0.06 per common shares to shareholders of record on each of January 31, 2010 and February 28, 2010 for the months of January and February 2010.

Investing Activities

For the year ended December 31, 2009, cash flow from investing activities totalled a cash outflow of \$12.5 million compared to a cash outflow of \$13.6 million during 2008. During the three months ended December 31, 2009, net cash outflows from investing activities totalled \$10.2 million compared to \$1.4 million for the three months ended December 31, 2008. During the fourth quarter of 2009, \$8.9 million was spent on the Champion acquisition (net of working capital adjustment and including transaction related costs) and \$1.6 million was spent towards capital asset additions on property and equipment (net of \$0.3 million financing). For the three months ended December 31, 2009, CES had \$0.6 million of additions related to maintenance capital additions and \$1.4 million of additions related to expansion capital additions. Notable additions during the three month period ended December 31, 2009 included \$0.4 million of vehicles, \$0.6 million on completion of construction of CES' Carlyle, Saskatchewan truck shop and \$0.6 million relating to the purchase of trucks and trailers for use in CES' trucking operations in Saskatchewan. Details of investment made in property and equipment are as follows:

Management Discussion & Analysis
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<i>\$000's</i>	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Expansion capital	1,430	1,496	4,306	6,787
Maintenance capital	568	489	612	961
Total investment in property and equipment	1,998	1,985	4,918	7,748
Vehicle financing	(349)	(539)	(451)	(1,791)
Capital expenditures	1,649	1,446	4,467	5,957
Change in non-cash investing working capital	(334)	29	(478)	191
Cash used for investment in property and equipment	1,315	1,475	3,989	6,148

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

Financing Activities

For the year ended December 31, 2009, cash flow from financing activities totalled a cash outflow of \$6.8 million compared to a cash inflow of \$11.1 million during the 2008. During the three months ended December 31, 2009, cash flow from financing activities totalled a cash inflow of \$12.4 million compared to a cash outflow of \$2.6 million during the comparative prior year period. For the three month period ended December 31, 2009, CES repaid \$0.3 million of its long-term debt balances, made distributions to unitholders totalling \$2.7 million, and drew on its bank indebtedness credit facility by \$5.7 million and as noted below, CES completed a private placement issuance of Class A Units for net proceeds of \$9.4 million.

Unitholders' Equity

On December 15, 2009, 1,000,000 Class A Units were issued at \$10.00 per unit pursuant a bought deal private placement in which CES received gross proceeds of \$10.0 million (\$9.4 million net proceeds to CES after transaction costs). In addition, during the fourth quarter of 2009, 39,518 Class A Units were issued pursuant to exercises made under the Unit Option Plan and the Distribution Rights Plan.

As of December 31, 2009, there was a total of 12,417,573 Class A Units outstanding and nil Subordinated Class B Units outstanding. Subsequent to year-end, all of these Class A Units were converted to common shares of CESTC pursuant to the Conversion. In addition, 791,776 common shares were issued pursuant to the forced conversion of the Debenture, and an aggregate of 182,960 common shares were issued pursuant to the exercise of options, and upon the termination of the Distribution Rights Plan resulting in the redemption of all distribution rights outstanding. As of the date of this MD&A, CESTC has a total of 13,392,309 common shares outstanding.

Unit-based Compensation

At December 31, 2009, a total of 1,241,757 Class A Units were reserved for issuance under the Unit Option Plan, the Distribution Rights Plan, and the Unit Bonus Plan of which 429,630 Class A Units remained available for grant.

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

CES' Option Plan provides incentives to the employees, officers, and directors of CESTC or its subsidiaries, and certain service providers by issuing options to acquire common shares (the "Option Plan"). At December 31, 2009, a total of 682,500 (December 31, 2008 - 725,500) Options were outstanding at a weighted average exercise price of \$8.75. As at December 31, 2009 a total of 515,584 Options were exercisable at a weighted average price of \$9.14. As of the date of this MD&A, there were 628,167 Options outstanding. There were no additional Option grants during the fourth quarter.

As a result of the Conversion, all prior grants under the Option Plan will continue based on similar terms and conditions as of the original grant and all outstanding options issued under the Option Plan will be exercisable for new common shares of CESTC on a one for one basis. No new grants shall be made under the Option Plan.

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b) Share Rights Incentive Plan – established January 1, 2010

In connection with the Conversion, CES has adopted a Stock Rights Incentive Plan (“SRIP”). The SRIP provides incentives to the employees, officers, and directors of CESTC or its subsidiaries, and certain service providers by issuing rights to acquire common shares (“Rights”). A copy of the SRIP is attached to CES’ Joint Information Circular dated November 25, 2009 and which is available on CESTC’s SEDAR profile at www.sedar.com. Rights granted under the SRIP generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the grant. At December 31, 2009, nil Rights had been granted under this plan. As of the date of this MD&A, a total of 65,000 Rights had been granted under the SRIP, none of which are vested.

c) Partnership Distribution Rights Plan – terminated January 1, 2010

The Partnership’s Distribution Rights Plan provided a long-term incentive to directors, officers, employees, and service providers of the Partnership who were providing services to the Partnership, the General Partner, or their affiliates through the issuance of Distribution Rights which were redeemable for Class A Units on the basis of distributions paid by the Partnership, thereby reflecting the total returns to holders of Class A Units. At December 31, 2009, a total of 129,627 (December 31, 2008 - 46,812) Class A Units were accumulated in the Distribution Right accounts of holders of an aggregate of 682,500 Distribution Rights (December 31, 2008 - 725,500). In conjunction with the Conversion effective January 1, 2010, the Partnership’s Distribution Rights Plan was terminated and the outstanding Distribution Rights were redeemed for an aggregate of 122,536 CESTC common shares on January 15, 2010.

d) Partnership Unit Bonus Plan – terminated January 1, 2010

The Partnership’s Unit Bonus Plan provided additional compensation, in lieu of cash bonuses, to the employees, officers, and certain service providers of the Partnership, subsidiaries of the Partnership, or the General Partner through the issuance of up to an aggregate maximum of 125,000 Class A Units. Under the plan, in certain circumstances Class A Units may have been granted and reserved for issuance subject to the recipient achieving conditions as determined by the Board of Directors of the General Partner. As of December 31, 2009, a total of 96,000 Class A Units had been issued under the Unit Bonus Plan. As of December 31, 2009, and as of the date of this MD&A, there were 29,000 Class A Units available for future grants and nil outstanding Class A Units reserved for issuance. In conjunction with the Conversion, the Partnership’s Unit Bonus Plan was terminated effective January 1, 2010.

Commitments / Contractual Obligations

At December 31, 2009, CES had the following additional commitments not included as liabilities on the CES’ balance sheet at December 31, 2009:

<i>\$000's</i>	2010	2011	2012	2013	2014	Total
Office rent	714	710	379	35	-	1,838
Vehicle operating leases	44	28	23	-	-	95
Total	758	738	402	35	-	1,933

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

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

In connection with the acquisition of the business assets of Clear Environmental Solutions Inc. on June 12, 2008, CES was required to pay consideration pursuant to the potential earn-out payment of \$2.0 million. The consideration payable under the agreement was determined by subtracting \$2.4 million from the net income from operations before management bonuses and investment income of CES attributable to the business and assets acquired in connection with the acquisition for the twelve month period ended June 30, 2009 and multiplying the result by a four times multiple. On August 28, 2009, \$1.8 million of this amount was satisfied through the issuance of 223,054 Class A Units of the Partnership. CES has accrued a liability of \$0.2 million relating to the remaining earn-out payable. The earn-out payable was settled in cash by CES subsequent to December 31, 2009.

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In conjunction with the Champion acquisition, CES recorded \$2.4 million in deferred acquisition consideration. Of this, \$2.1 million (US\$2.0 million) of the deferred acquisition consideration is payable in cash upon the earlier of the second anniversary of the acquisition or the successful business expansion of the Champion Drilling Fluids divisional operations into the Marcellus shale region of the United States. Currently, CES anticipates that this will be payable during 2010 and as such has classified the liability as a current liability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CES prepares its consolidated financial statements in accordance with Canadian GAAP. Effective November 1, 2009, CES changed its inventory accounting policy from a first-in, first out basis to an average cost basis. As of the date of transition, management of CES reviewed the estimated impact to the financial statements of retrospective application of this change in accounting policy and determined that the impact to the financial statements for each of 2009 and 2008 was not material. As such, the current year and prior fiscal years have not been restated to reflect the change in accounting policy. With the exception of CES' change in inventory accounting policy, the policies used by CES for the year ended December 31, 2009 remain consistent with those used for the years ended December 31, 2008. There were no new accounting policies announced during the period presented which would be expected to materially impact the CES' consolidated financial statements. Details of the CES' significant accounting policies are found in note three of the CES' audited financial statements for the year ended December 31, 2009 and 2008.

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

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

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

In January 2009, CES adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. There has been no impact to CES as a result of the initial adoption of these standards.

Financial Instruments

In June 2009, the AcSB issued amendments to Section 3862, Financial Instruments - Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). CES has included these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

Future Accounting Pronouncements

Business Combinations

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

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Consolidated Financial Statements and Non-Controlling Interests

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

International Financial Reporting Standards (IFRS)

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

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

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

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

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

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.

At the end of the period covered by this MD&A, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' (and the Partnership's) disclosure controls and procedures, as detailed by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in CES's annual filings and interim filings and other reports filed or submitted in accordance with Canadian securities laws is recorded, processed, summarized and

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reported within the time periods specified by those laws and that material information is accumulated and communicated to management of CES, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow decisions regarding required disclosure.

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 Canadian GAAP. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and effectiveness of CES' internal control controls over financial reporting as at December 31, 2009. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2009.

On November 30, 2009 CES acquired substantially all of the business assets of Champion and began consolidating the operations of Champion into CES. Management excluded this business from its evaluation of the effectiveness of CES' internal control over financial reporting as at December 31, 2009. The net income attributable to this business represented approximately one per cent of CES' consolidated net income in 2009, and its aggregate total assets represented approximately fifteen per cent of CES' consolidated total assets as at December 31, 2009.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2009 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' 2009 Annual Report, CES' Annual Information Form dated March 10, 2010 in respect of the year ended December 31, 2009, and CES' Information Circular in respect to the June 26, 2009 Annual General and Special Meeting of unitholders each of which are available on the CES' SEDAR profile at www.sedar.com.

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

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

The ability of CES to sell and expand its services will also depend upon the ability to attract qualified personnel as needed. Over

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the past few years, the demand for skilled oilfield employees and drilling fluid technicians has been high and the supply has been limited. The unexpected loss of CES' key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on CES' results. CES addresses this risk by:

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

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

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

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

The turmoil in the financial markets over the past eighteen months has impacted the general availability of both credit and equity financing in the marketplace. Despite recent improvements, markets remain relatively tight. In December 2009 CES raised \$10 million in the equity markets through the completion of a bought deal private placement financing, however past success is not a guarantee of future success. It may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. In addition, should CES' senior lender be unable to, or choose not to fund, it would impair CES' ability to operate, as access to operating line funds is critical to the effective execution of the business. CES has not experienced any funding issues under its debt facilities to date.

CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the LP Agreement in place, only persons who are residents in Canada, or, if partnerships, are Canadian partnerships, in each case for purposes of the Tax Act, may 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 the regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain proposed amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly traded trust or partnership are exchanged for shares of a corporation. However, the proposed amendments are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion.

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

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OUTLOOK

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

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

Management believes that CES' technologies have global application and CES will continue to pursue opportunities that align our service offerings with the needs of our customers. We are confident that our technologies will be embraced as we build out our operations. In particular with the Champion acquisition completed in the US, management believes CES' presence in the Rockies and Mid-Continent regions of the US offer significant growth opportunities. These markets present us with potential incremental growth and future access into other basins in the United States. The Marcellus shale play in the Northeast US has particular promise for near-term market gains and is a focus of expansion efforts. Our strategy remains to utilize our patented and proprietary technologies and local personnel to create market share in the US.

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

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

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

ADDITIONAL INFORMATION

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

Information

BOARD OF DIRECTORS

Kyle D. Kitagawa, Chairman ¹

Colin D. Boyer^{1,2}

John M. Hooks²

D. Michael G. Stewart¹

Thomas J. Simons

Rodney L. Carpenter

¹ Member of the Audit Committee

² Member of the Governance and Compensation Committee

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS

Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS

HSBC Bank Canada, Calgary, AB

SOLICITORS

Blake, Cassels & Graydon LLP, Calgary, AB

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