Canadian Energy SERVICES L.P.

Three Months Ended March 31, 2007

FINANCIAL HIGHLIGHTS

Canadian Energy Services L.P. ("CES" or the "Partnership") is pleased to report on its financial and operating results for the three months ended March 31, 2007. The Partnership achieved record results in the first quarter with its highest quarterly revenue level at $19.5 million, a 17% increase over the three months ended December 31, 2006. CES' estimated market share increased from 16% in the fourth quarter of 2006 to 17% in the first quarter of 2007. CES' payout ratio in the first quarter of 2007 was 55%.

CES attributed its growth and success to the continued use of its existing technologies and particularly the emergence of new technologies like Seal-AX (Patent Pending) and Poly-Core. Combining CES technologies with its superior service helps the Partnership's customers achieve their objectives of lower drilling costs and improved productivity.

Financial Results	**Three Months Ended Mar 31, 2007**	30-day Period Ended Mar 31, 2006[1]
($000's except per unit amounts)		
Revenue	**19,518**	6,922
Gross margin[2]	**6,521**	1,769
Net earnings	**3,927**	1,279
per unit – basic and diluted[3]	**0.42**	0.14
EBITDAC[2]	**4,128**	1,302
Cash flow from operations[2]	**4,137**	1,311
per unit – basic and diluted[3]	**0.44**	0.15
Distributions declared		
per Class A Unit	**0.2376**	0.0792
per Subordinated Class B Unit	**0.2376**	0.0792

Financial Position	**Mar 31, 2007**	Dec 31, 2006
($000's)		
Working capital	**12,580**	10,920
Total assets	**71,260**	74,910
Long-term financial liabilities[4]	**695**	616
Unitholders' equity	**56,233**	54,494

Partnership Units Outstanding[3]	**Three Months Ended Mar 31, 2007**	30-day Period Ended Mar 31, 2006[1]
End of period	**9,380,946**	8,905,946
Weighted average - basic	**9,380,946**	8,905,946
- diluted	**9,380,946**	8,905,946

Notes:

[1] From commencement of operations on March 2, 2006.

[2] Refer to the "Non-GAAP Measures" on page 4 for further detail.

[3] Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 9).

[4] Vehicle financing loans, excluding current portion.

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2006 Annual Report, including the audited consolidated financial statements and notes thereto, of Canadian Energy Services L.P. ("CES" or the "Partnership") as at and for the period ended December 31, 2006 and the unaudited consolidated financial statements and notes thereto of the Partnership for the three months ended March 31, 2007. The information contained in this MD&A was prepared up to and including May 7, 2007 and incorporates all relevant considerations to that date.

Certain statements in this MD&A may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Partnership, 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 the Partnership's 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. Although the forward-looking information contained in this MD&A is based upon what management of the Partnership believes are reasonable assumptions, the Partnership cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this MD&A, and, subject to applicable securities laws, the Partnership assumes no obligation to update or revise such information to reflect new events, or circumstances.

In particular, this MD&A contains forward-looking information pertaining to the following: capital expenditure programs for oil and natural gas drilling; supply and demand for drilling fluid systems and industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers and equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada and the United States; development of new technology; acquisition of trucking capacity; and competitive conditions.

The Partnership's 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 and taxation of trusts, public partnerships and other flow-through entities; fluctuations in foreign exchange and interest rates and the other factors considered under "Risk Factors" in the Partnership's Annual Information Form for the period ended December 31, 2006 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.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights of the three month period ended March 31, 2007 for CES were:

- Revenue of $19.5 million was generated in the first quarter of 2007 which was almost three times the revenue generated for the 30-day period ended March 31, 2006. CES estimated market share increased from 10% in March 2006 to 17% in the first quarter of 2007. Overall industry average rig count was down 25% from the first quarter of 2006.

- In comparison to the fourth quarter in 2006, revenue generated in the first quarter of 2007 was a 17% increase. CES' estimated market share increased from 16% in the fourth quarter 2006 to 17% in the first quarter of 2007. Overall industry average rig count increased 13% for the same periods.

- Gross margin of $6.5 million or 33% of revenue was generated for the first quarter which, as a percentage of revenue, increased from 29% generated last quarter and 26% for the 30-day period ended March 31, 2006.

- Selling, general and administrative ("SG&A") costs were $2.4 million in the first quarter, an increase of $373,000 from the fourth quarter in 2006. This increase related to higher sales commissions and discretionary bonuses commensurate with higher revenue. Costs incurred for public reporting compliance continued to be high in the first quarter as the Partnership completed its first fiscal year end reporting obligations.

- Net earnings were $3.9 million (20% of revenue) in the first quarter which was three times the net earnings generated in the 30-day period ended March 31, 2006.

- The Partnership continued to maintain its level of distributions and declared monthly distributions of $0.0792 per unit to Class A unitholders. A quarterly distribution of $0.2376 was declared to the Subordinated Class B unitholders of record on March 31, 2007. The target payout ratio (refer to "Non-GAAP Measures" on page 4) on an annualized basis continues to be 80% of distributable cash. The actual payout ratio for the three months ended March 31, 2007 was 55%. Management continues to believe the annual target level of distributions is achievable and appropriate for the Partnership's business given the relatively low level of capital required to maintain and grow the business.

- Working capital was $12.6 million at March 31, 2007 and CES' only long-term debt, representing vehicle financing loans, was $695,000. To date the Partnership has not drawn on its $3.0 million operating line of credit.

OVERVIEW OF THE PARTNERSHIP FORMATION AND THE CORPORATE STRUCTURE

The Partnership is a limited partnership formed on January 13, 2006 under the *Limited Partnerships Act* (Ontario). The Partnership was organized in accordance with and is governed by the terms and conditions of a limited partnership agreement dated January 13, 2006 and amended and restated on March 2, 2006 (the "Partnership Agreement"). The Partnership's business and affairs are managed by Canadian Energy Services Inc. (the "General Partner") pursuant to the Partnership Agreement. A copy of the Partnership Agreement is available on the Partnership's SEDAR profile at www.sedar.com.

The General Partner was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is authorized to carry on the business of the Partnership and has full power and exclusive authority to administer, manage, control, and operate the business of the Partnership. The Partnership reimburses the General Partner for all direct costs and expenses incurred in the performance of those duties.

The Partnership commenced business operations on March 2, 2006 when it acquired the businesses of two private drilling fluids companies. CES designs and implements drilling fluid systems for the oil and gas industry, in particular, relating to drilling medium to deep vertical and directional wells and horizontal wells in the Western Canadian Sedimentary Basin ("WCSB").

NON-GAAP MEASURES

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

Cash flow or cash 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. Cash flow or cash flow from operations assists management and investors in analyzing operating performance and leverage. Cash flow was calculated as follows:

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
($000's)		
Cash provided by (used in) operating activities	**(765)**	3,281
Adjust for:		
Change in non-cash operating working capital	**4,902**	(1,970)
Cash flow from operations	**4,137**	1,311

[1] From commencement of operations on March 2, 2006.

Distributable cash – means cash flow from operations less maintenance capital. See the definition of maintenance capital under "Operational Definitions" on page 5. Distributable cash is used by management and investors to analyze the amount of cash available to distribute to unitholders before consideration of cash required for growth purposes. Refer to "Liquidity and Capital Resources – Cash Flow from Operating Activities and Distributions" on page 8 for the calculation of distributable cash.

EBITDAC – means net earnings (loss) before interest, taxes, amortization, goodwill impairment and unit-based compensation. EBITDAC, or commonly referred to as EBITDA, is a metric used by many investors to access the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC was calculated as follows:

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
($000's)		
Net earnings	**3,927**	1,279
Add back (deduct):		
Interest income, net of interest expense	**(9)**	(9)
Amortization of property and equipment	**169**	23
Unit-based compensation	**41**	9
EBITDAC	**4,128**	1,302

[1] From commencement of operations on March 2, 2006.

Gross margin – means revenue less cost of sales, which represents cost of product and field 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 declared as a percentage of distributable cash. Refer to "Liquidity and Capital Resources – Cash Flow from Operating Activities and Distributions" on page 8 for the calculation of the payout ratio.

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

OPERATIONAL DEFINITIONS

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 by comparing, on a semi-weekly basis, active rigs where the Partnership was contracted to provide services to the total active rigs for Western Canada. Active rigs, in both cases, included operating rigs, rigs on standby (i.e. waiting on weather) and rigs that were moving.

Operating days **–** CES estimates its operating days, which are revenue generating days, by multiplying the average number of active rigs where the Partnership was contracted to provide services by the number of days in the period.

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

shallow wells:	generally less than 1,000 metres;
medium wells:	generally between 1,000 and 2,500 metres;
deep wells:	generally greater than 2,500 metres; and
horizontal wells:	drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each.

RESULTS FOR THE PERIODS

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
($000's, except per unit amounts)		
Revenue	**19,518**	6,922
Cost of sales	**12,997**	5,153
Gross margin[2]	**6,521**	1,769
% of revenue	**33%**	26%
Selling, general and administrative expenses	**2,393**	467
Amortization of property and equipment	**169**	23
Unit-based compensation	**41**	9
Interest income, net of interest expense	**(9)**	(9)
Net earnings	**3,927**	1,279
per unit – basic and diluted	**0.42**	0.14

[1] From commencement of operations on March 2, 2006.
[2] Refer to the "Non-GAAP Measures" on page 4 for further detail.

Revenue and Operating Activities

Revenue for the three month period ended March 31, 2007 was $19.5 million which was almost three times the revenue for the 30-day period ended March 31, 2006. Revenue increased 17% from the fourth quarter in 2006.

Technology developments provided cost effective solutions to our customers and contributed to CES' ability to gain market share and generate incremental revenue in the first quarter. Approximately $2.0 million of incremental revenue was generated in the first quarter as a result of Seal-AX (patent-pending) which reduces seepage losses of base oil while drilling into deeper, long life gas reservoirs. This technology is being deployed in other applications such as our Envirobond drilling fluids system.

The top five customers of the Partnership accounted for approximately 29% of revenue in the first quarter, with the largest customer at 9%.

The active rig count in Western Canada averaged 526 for the three months ended March 31, 2007 based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published active rig counts for Western Canada. This was a 25% drop from the average rig count of 700 in the first quarter in 2006. In comparison to the fourth quarter 2006, there was a 13% increase in the average rig count. This increase follows the traditional increase in the winter drilling season.

Although overall drilling activity declined year over year, CES estimated that its operating days in the first quarter increased significantly and its estimated market share increased from 10% for the 30-day period ended March 31, 2006 to 17% during the three months ended March 31, 2007.

The Partnership estimated operating days as follows:

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
Operating days	**7,380**	1,830

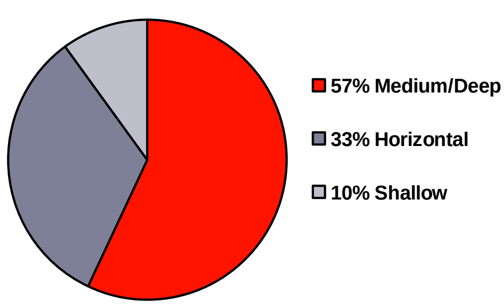
[1]*From commencement of operations on March 2, 2006.*

CES continued to focus on medium to deep drilling and horizontal drilling which represented approximately 90% of revenue for the first quarter in 2007. CES' experience has been that the importance to the operator of drilling fluid systems' increases significantly with the depth and complexity of the well drilled.

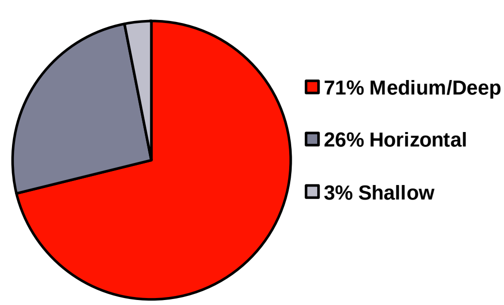
The Partnership has also increased its participation in the number of shallow wells, generating 10% of overall revenue, but a significant portion was coring wells drilled by oilsands operators. A number of these wells used CES' new Poly-Core technology. This technology maximizes core recovery for operators as they delineate or evaluate formations.

The following charts illustrate the Partnership's estimated revenue by well type in CES' targeted areas.

Three Months Ended March 31, 2007



30-day Period Ended March 31, 2006



Cost of Sales and Gross Margin

Gross margin of $6.5 million, or 33% of revenue, was generated for the first quarter in 2007. Gross margin was 26% of revenue for the 30-day period ended March 31, 2006. Gross margin represents the profit earned on revenue after deducting the cost of materials, field labour and all related field costs. Margins can vary due to a change in product mix.

Margins have improved from the 30-day period ended March 31, 2006 partially due to the reduction in the amount of base oil used in the Invert systems procured by CES on behalf of the customer. In December 2006, CES started working with its base oil suppliers and its customers who use Invert in their wells to have the base oil billed directly to the customer. The effect of this on CES has been lower product revenue recorded and less associated costs. As CES does not typically generate a margin on the base oil, the overall gross margin has improved. The Invert system is a key service as it enables CES to work for customers on deep wells and profit is generated on the additives to the system.

CES worked with key suppliers in the first quarter to identify opportunities to lower costs. Product procurement strategies continue to be a key means to facilitate profitable growth.

Labor costs continued to be addressed through day rates for field engineering services and general product pricing with customers.

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

SG&A for the first quarter in 2007 was $2.4 million, an increase of $373,000 from the fourth quarter in 2006. This increase related to higher sales commissions and higher costs for discretionary bonuses. Costs incurred for public reporting compliance continued to be high in the first quarter as the Partnership completed its first fiscal year end reporting obligations.

Sales commissions are directly related to revenue generated and are scaled based on product margins generated for the specific job. In addition, with the growth of the business and the need to increase sales personnel, a higher proportion of revenue is now subject to commissions. Revenue generated by executive management is not commissionable.

Discretionary bonuses have traditionally been paid to non-executive employees based on financial performance. In the first quarter of 2007, bonus costs were higher following the increased activity and the higher number of eligible employees. In addition, an executive bonus was awarded. All bonuses are impacted by current market conditions in a competitive labor environment.

The Partnership continues to be focused on overall cost control for SG&A.

Other Expense (Income) Items

Amortization of property and equipment was $169,000 for the three months ended March 31, 2007 and $23,000 for the 30-day period ended March 31, 2006, largely related to vehicles which are amortized on a straight-line basis over 3 years.

Unit-based compensation was determined using the Black-Scholes option pricing model and expensed over the three year vesting period.

Interest income, net of interest expense consists of interest earned on short-term investments, net of interest expense on vehicle financing loans.

QUARTERLY FINANCIAL SUMMARY

	30-day Period Ended Mar 31, 2006[1]	Three Months Ended Jun 30, 2006	Three Months Ended Sep 30, 2006	Three Months Ended Dec 31, 2006	**Three Months Ended Mar 31, 2007**
Financial Results					
($000's except per unit amounts)					
Revenue	6,922	7,839	14,619	16,633	**19,518**
Gross margin[2]	1,769	2,315	4,194	4,906	**6,521**
Net earnings (loss)	1,279	675	2,500	(31,263)	**3,927**
per unit – basic and diluted[3]	0.14	0.08	0.27	(3.33)	**0.42**
EBITDAC[2]	1,302	737	2,596	2,886	**4,128**
Cash flow from operations[2]	1,311	778	2,635	2,917	**4,137**
per unit – basic and diluted[3]	0.15	0.09	0.29	0.31	**0.44**
Partnership Units Outstanding[3]					
End of period	8,905,946	9,005,946	9,380,946	9,380,946	**9,380,946**
Weighted average – basic	8,905,946	8,907,045	9,244,805	9,380,946	**9,380,946**
Weighted average – diluted	8,905,946	8,912,539	9,244,898	9,380,946	**9,380,946**

Notes:
[1] From commencement of operations on March 2, 2006.
[2] Refer to the "Non-GAAP Measures" on page 4 for further detail.
[3] Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 9).

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, the Partnership had cash and cash equivalents of $1.0 million. Working capital was positive at $12.6 million.

Long-term liabilities at March 31, 2007 were $695,000 representing vehicle financing loans. Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet this long-term payment obligation.

CES has a revolving demand facility to borrow up to $3.0 million for general operating purposes. To date, no amounts have been drawn on this facility.

Cash Flow from Operating Activities and Distributions

CES calculated distributable cash based on cash flow from operations[1] and the payout ratio based on the level of distributions declared as follows:

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[3]
($000's)		
Cash flow from operations[1]	**4,137**	1,311
Less: Maintenance capital[2]	**89**	73
Distributable cash[1]	**4,048**	1,238
Distributions declared	**2,229**	705
Payout ratio	**55%**	57%

Notes:
[1] Refer to the "Non-GAAP Measures" on page 4 for further detail.
[2] Refer to the "Operational Definitions" on page 5 for further detail.
[3] From commencement of operations on March 2, 2006.

Distributable cash was $4.0 million for the three months ended March 31, 2007. The Partnership declared monthly distributions of $0.0792 per Class A Common limited partnership unit ("Class A Unit") during the period and a quarterly distribution of $0.2376 per Class B subordinated limited partnership unit ("Subordinated Class B Unit") to Subordinated Class B unitholders of record on March 31, 2007. Distributions on the Subordinated Class B Units are paid on a quarterly basis, subject to the Partnership achieving certain distribution targets on the Class A Units. The distributions paid per unit on the Class A Units and the Subordinated Class B Units met the per unit targets as set out in the Partnership's long form prospectus dated February 21, 2006 in connection with the Initial Public Offering.

The target payout ratio on an annualized basis continues to be 80% of distributable cash. The actual payout ratio for the first quarter of 2007 was 55%. The actual payout ratio varies with the seasonality of the Partnership's cash flow. Periods of higher activity will cause the payout ratio to decrease, 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 of the seasonality of the business or changes in the level of working capital, distributions could be funded through the credit facility. To date, the Partnership has not drawn on its credit facility.

Management continues to believe that the annual target level of 80% of distributable cash is achievable and appropriate for the Partnership's business given the relatively low level of capital required to maintain and grow the business.

On November 6, 2006 the Canadian Institute of Chartered Accountants (CICA) released draft guidance on the definition, calculation and reporting of distributable cash. In addition, on January 5, 2007 the Canadian Securities Administrators released proposed amendments to National Policy 41-201 - Income Trusts and Other Indirect Offerings. Both of these proposals are designed to establish consistency in the definition, calculation and reporting of distributable cash.

Based on these proposals, CES' distributable cash and payout ratio would be adjusted to reflect the impact of non-cash operating working capital items on cash flows from operations and distributions would be based on amounts paid rather than on amounts declared. This methodology reflects a cash basis for determination of the payout ratio.

Maintenance of productive capacity is not specifically defined in the proposed guidelines. It is intended to reflect the capital required to maintain the current level of operations. CES believes that this definition is consistent with that which the Partnership has historically adopted as maintenance capital. See "Operational Definitions" on page 5.

Subsequent to the quarter end, CES declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on April 30, 2007.

Investing Activities

The Partnership incurred $327,000 in capital expenditures during the first quarter of which $238,000 was for expansion capital and $89,000 was for maintenance capital. See "Operational Definitions" on page 5 for an explanation of expansion versus maintenance capital. The expansion capital related to growth in the vehicle fleet ($166,000) and new field equipment ($72,000). Maintenance capital related to replacement vehicles ($59,000), replacement field equipment ($27,000) and computers ($3,000).

Financing Activities

There were no significant financing activities in the first quarter of 2007.

Impact of Proposed Changes to the Taxation of Public Flow-Through Entities

There have not been any significant changes to the proposed new tax announced in 2006, which, if enacted, would impose a tax of 31.5% on certain flow-through entities including publicly traded partnerships such as CES. CES continues to monitor the status of these proposals.

Unitholders' Equity

No additional units were issued during the three month period ending March 31, 2007.

On March 2, 2007, one half of the 706,890 Class A Units that were being held in escrow were released from escrow. The remaining units are to be released on March 2, 2008.

Unit Option Plan

The Partnership may provide additional compensation to employees, officers and directors of the General Partner and certain other service providers by issuing options to acquire Class A Units under the Partnership's Unit Option Plan (the "Unit Option Plan"). As at March 31, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 193,595 Class A Units remain available for option grants. Options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire five years after the grant.

Commitments / Contractual Obligations

The Partnership has the following financial commitments with payments due for the years ending March 31 as follows:

($000's)	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Vehicle financing loans	$ 499	$ 413	$ 225	$ 35	$ 22	$ 1,194
Operating leases	96	36	7	-	-	139
Office rent	336	-	-	-	-	336
Total	$ 931	$ 449	$ 232	$ 35	$ 22	$ 1,669

Given its current financial condition, the Partnership anticipates it will be able to meet these commitments as necessary.

OFF-BALANCE SHEET ARRANGEMENTS

The Partnership does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties during the first quarter of 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Financial Instruments

On January 1, 2007, the Partnership adopted the following CICA Handbook Sections: Section 1530 – Comprehensive Income; Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, in accordance with the transitional provisions in each respective section.

Upon adoption of these standards, the Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities, and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

The Partnership has classified its financial instruments as follows: cash – held for trading; accounts receivable and prepaid – loans and receivables; and accounts payable and accrued liabilities, distributions payable and vehicle loans – other financial liabilities.

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations and, as a result, the adoption of Section 3865 has no impact on the financial statements for this period.

Accounting Changes

On January 1, 2007, the Partnership adopted CICA Handbook Section 1506 – Accounting Changes. This standard requires that when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and the expected impact of the new standard in the period of initial application.

At March 31, 2007, the Partnership has not adopted CICA Handbook Section 1535 – Capital Disclosures and Section 3862 – Financial Instruments - Disclosures. These sections are to be applied to interim annual financial statements relating to fiscal years beginning on or after October 1, 2007. These standards requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements and to disclose the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The Partnership intends to adopt these standards in the financial statements for the interim period ended March 31, 2008. The impact of the initial application of these standards is not expected to be significant.

New Developments

Management of the Partnership is not aware of any recent accounting pronouncements or developments, other than as noted above, that will affect the Partnership's consolidated financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the Partnership's consolidated financial statements as they become available.

RISKS AND UNCERTAINITIES

The business of the Partnership is subject to certain risks and uncertainties. The Reader should refer to CES' 2006 Annual Report and the Annual Information Form in respect of the period ended December 31, 2006, both of which are available on the Partnership's SEDAR profile at www.sedar.com.

CORPORATE GOVERNANCE

The Reader should refer to CES' 2006 Annual Report, the Annual Information Form and the annual Information Circular, all of which are available on the Partnership's SEDAR profile at www.sedar.com.

OUTLOOK

Management believes that CES is well positioned with its technology-based service offerings, geographic diversification and broad customer base. The Partnership is cautiously optimistic that it can continue to grow its business under the current challenging market conditions. This growth will be achieved through continuing to build market penetration for Seal-AX and additional activity with other leading technologies such as Liquidrill™ used in horizontal oil drilling in southeast Saskatchewan which includes the Bakken formation.

CES believes that its value proposition in drilling for deeper natural gas, oilsands and conventional horizontal oil wells positions itself as the premium fluids provider in the market.

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

Consolidated Balance Sheets

(stated in thousands of dollars)(unaudited)

		Mar 31, 2007		Dec 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents (note 3)	**$**	**994**	$	4,194
Accounts receivable		**22,203**		23,733
Inventory		**3,384**		2,613
Prepaid expenses		**331**		180
		26,912		30,720
Property and equipment (note 4)		**2,382**		2,224
Goodwill (note 5)		**41,966**		41,966
	$	**71,260**	$	74,910
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,749**	$	17,832
Distributions payable		**1,084**		1,084
Deferred revenue		**-**		427
Current portion of vehicle financing loans (note 6)		**499**		457
		14,332		19,800
Vehicle financing loans (note 6)		**695**		616
Unitholders' equity				
Class A Units (note 7)		**66,959**		66,959
Subordinated Class B Units (note 7)		**21,514**		21,514
Contributed surplus		**146**		105
Deficit		**(32,386)**		(34,084)
		56,233		54,494
	$	**71,260**	$	74,910

Commitments (note 11)

Subsequent Event (note 14)

APPROVED ON BEHALF OF THE BOARD:

"*Thomas J. Simons*"
Thomas J. Simons
President & Chief Executive Officer and Director

"*D. Michael Stewart*"
D. Michael Stewart
Director & Chairman, Audit Committee

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

Consolidated Statements of Operations and Retained Earnings (Deficit)
(stated in thousands of dollars)(unaudited)

		Three Months Ended Mar 31, 2007		30-day Period Ended Mar 31, 2006[1]
Revenue	**$**	**19,518**	$	6,922
Cost of sales		**12,997**		5,153
Gross margin		**6,521**		1,769
Expenses				
Selling, general and administrative expenses		**2,393**		467
Amortization of property and equipment		**169**		23
Unit-based compensation (note 8)		**41**		9
Interest income, net of interest expense		**(9)**		(9)
		2,594		490
Net earnings for the period		**3,927**		1,279
Other comprehensive income		**-**		-
Comprehensive net earnings for the period		**3,927**		1,279
Retained earnings (deficit), beginning of period		**(34,084)**		-
Unitholders' distributions declared (note 10)		**(2,229)**		(705)
Retained earnings (deficit), end of period	**$**	**(32,386)**	$	574
Net earnings per unit (note 9)				
Basic and diluted	**$**	**0.42**	$	0.14

[1]*From commencement of operations on March 2, 2006.*

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

Consolidated Statements of Cash Flow
(stated in thousands of dollars)(unaudited)

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net earnings for the period	**$ 3,927**	$ 1,279
Items not involving cash:		
Amortization of property and equipment	**169**	23
Unit-based compensation	**41**	9
Change in non-cash operating working capital (note 13)	**(4,902)**	1,970
	(765)	3,281
FINANCING ACTIVITIES:		
Units issued for cash, net of issue costs	**-**	53,602
Repayment of vehicle financing loans	**(118)**	(15)
Change in non-cash financing working capital	**-**	812
Distributions to unitholders	**(2,229)**	-
	(2,347)	54,399
INVESTING ACTIVITIES:		
Repayment of acquisition notes	**-**	(50,602)
Purchase of property and equipment	**(88)**	(333)
	(88)	(50,935)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,200)**	6,745
Cash and cash equivalents, beginning of period	**4,194**	-
Cash and cash equivalents, end of period (note 3)	**$ 994**	$ 6,745

SUPPLEMENTARY CASH FLOW DISCLOSURE

Interest paid	**$ 3**	$ -
Taxes paid	**$ -**	$ -

[1] *From commencement of operations on March 2, 2006.*

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

1. The Limited Partnership

Canadian Energy Services L.P. (the "Partnership") is a limited partnership formed on January 13, 2006, pursuant to the *Limited Partnerships Act* (Ontario). The Partnership is a "Canadian partnership" as defined in subsection 102(1) of the *Income Tax Act* (Canada) (the "Act") and the terms of a limited partnership agreement dated January 13, 2006, and amended and restated on March 2, 2006 (the "Partnership Agreement"), prohibit the issuance of units to, and the admittance as partners of, persons who are non-resident of Canada for the purposes of the Act.

On March 2, 2006, the Partnership commenced business operations when it acquired the businesses of two private drilling fluid companies. Consideration for the acquisition was comprised of acquisition notes, the issuance of Class A Common limited partnership units ("Class A Units") and Class B subordinated limited partnership units ("Subordinated Class B Units"). On March 2, 2006 the acquisition notes were repaid with the proceeds from the Partnership's initial public offering of 5,893,866 Class A Units for aggregate gross proceeds of $58.9 million and net proceeds of $53.6 million after deducting underwriting commissions and certain other expenses of the initial public offering.

Canadian Energy Services Inc., the general partner of the Partnership (the "General Partner"), was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is authorized to carry on the business of the Partnership and has full power and exclusive authority to administer, manage, control, and operate the business of the Partnership. The Partnership reimburses the General Partner for all direct costs and expenses incurred in the performance of those duties.

The Partnership designs and implements drilling fluid systems for the oil and gas industry, in particular relating to drilling medium to deep vertical and directional wells and horizontal wells in the Western Canadian Sedimentary Basin. The oil and natural gas drilling season is affected by weather. The industry is generally more active during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather in the spring and summer can hamper the movement of drilling rigs which has a direct impact upon generating revenue. Conversely, a longer colder winter as well as a dry spring and summer strengthen drilling operations.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles (GAAP) following the same accounting principles and methods of computation as the Partnership's audited consolidated financial statements for the period ended December 31, 2006, except for as noted below. These interim consolidated financial statements do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto in the Partnership's Annual Report for the period ended December 31, 2006.

(b) Comprehensive Income, Financial Instruments and Hedging

On January 1, 2007, the Partnership adopted the following CICA Handbook Sections: Section 1530 – Comprehensive Income; Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, in accordance with the transitional provisions in each respective section.

Upon adoption of these standards, the Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities, and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

Tabular amounts in thousands of dollars, except unit and per unit amounts

The Partnership has classified its financial instruments as follows: cash – held for trading; accounts receivable and prepaid – loans and receivables; and accounts payable and accrued liabilities, distributions payable and vehicle loans – other financial liabilities.

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations and, as a result, the adoption of Section 3865 has no impact on the financial statements for this period.

(c) Accounting Changes

On January 1, 2007, the Partnership adopted CICA Handbook Section 1506 – Accounting Changes. This standard requires that when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and the expected impact of the new standard in the period of initial application.

At March 31, 2007, the Partnership has not adopted CICA Handbook Section 1535 – Capital Disclosures and Section 3862 – Financial Instruments - Disclosures. These sections are to be applied to interim annual financial statements relating to fiscal years beginning on or after October 1, 2007. These standards requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements and to disclose the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The Partnership intends to adopt these standards in the financial statements for the interim period ended March 31, 2008. The impact of the initial application of these standards is not expected to be significant.

3. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

	Mar 31, 2007	Dec 31, 2006
Cash	$ 994	$ 194
Temporary investments	-	4,000
	$994	$4,194

4. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value Mar 31, 2007	Net Book Value Dec 31, 2006
Computer equipment and software	$ 362	$ 82	$ 280	$ 304
Vehicles	1,600	317	1,283	1,165
Trucks	119	6	113	118
Field equipment	386	56	330	248
Furniture and fixtures	125	23	102	108
Buildings	256	25	231	237
Tanks	35	1	34	35
Land	9	-	9	9
	$ 2,892	$ 510	$ 2,382	$ 2,224

5. Goodwill

Goodwill initially recognized	$ 75,966
Impairment loss recognized for the period ended Dec 31, 2006	(34,000)
Impairment loss recognized during the current period	-
	$ 41,966

Tabular amounts in thousands of dollars, except unit and per unit amounts

6. Credit Facilities and Vehicle Financing Loans

The Partnership has a revolving demand facility with a commercial bank that permits the Partnership to borrow up to $3.0 million at the bank's prime rate of interest plus 0.50%. The facility is secured by a general security agreement containing a first ranking security interest over all personal property of the Partnership and the General Partner. It is also secured by a guarantee provided by the General Partner for the full amount outstanding at any one time under the credit facility. During the period there were no amounts drawn on the facility by the Partnership.

The Partnership has vehicle financing loans at interest rates of 0 to 4.9%, repayable in monthly payments of $0.8 - $2.0, maturing from October 2007 to March 2012.

	Mar 31, 2007	Dec 31, 2006
Vehicle financing loans	$ 1,194	$ 1,073
Less current portion	499	457
	$ 695	$ 616

Principal payments are as follows for the years ending March 31:

2008	$ 499
2009	413
2010	225
2011	35
2012	22

7. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units. At March 31, 2007 there were 7,229,460 Class A Units outstanding and 2,151,486 Subordinated Class B Units outstanding. No additional units were issued during the three month period ended March 31, 2007.

On March 2, 2007, one half of the 706,890 Class A Units that were being held in escrow were released from escrow. The remaining units are to be released on March 2, 2008.

8. Partnership Unit Option Plan

The Partnership may provide additional compensation to the employees, officers and directors of the General Partner and certain service providers by issuing options to acquire Class A Units under the Partnership's unit option plan (the "Unit Option Plan"). As at March 31, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 193,595 Class A Units remain available for grant. Options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire five years after grant.

The following table summarizes information about the Unit Option Plan for the three months ended March 31, 2007.

	Options	Average Exercise Price
Outstanding, beginning of period	669,500	$ 9.16
Granted during period	75,000	6.07
Cancelled during period	-	-
Outstanding, end of period, March 31, 2007	744,500	$ 8.84
Exercisable, end of period, March 31, 2007	-	-

The fair value of the options granted during the three months ended March 31, 2007 was $64,000 (30-day period ended March 31, 2006 - $331,000). During the same period, compensation costs of $41,000 (30-day period ended March 31, 2006 - $9,000) were recorded in the statement of operations. The compensation costs were calculated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4.5%, a yield of 11%, an expected volatility of 31% and expected lives of unit options of 5 years.

Tabular amounts in thousands of dollars, except unit and per unit amounts

9. Earnings Per Unit

The computations for basic and diluted earnings per unit are as follows:

	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
Earnings	$ 3,927	$ 1,279
Weighted average number of units outstanding:		
Basic	9,380,946	8,905,946
Effect of unit options	-	-
Diluted	9,380,946	8,905,946
Earnings per unit:		
Basic and diluted	$ 0.42	$ 0.14

[1]*From commencement of operations on March 2, 2006.*

10. Cash Distributions

The Partnership declares monthly distributions of cash to Class A unitholders of record as at the close of business on each monthly distribution record date. In addition, the Partnership declares quarterly distributions on the Subordinated Class B Units to unitholders of record at the close of business on each quarterly distribution record date, subject to achieving certain distribution targets on the Class A Units. The amounts of the distributions are determined by the General Partner in accordance with the Partnership Agreement on a discretionary basis. Such distributions are recorded as reductions of equity upon declaration of the distribution. The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the period ended March 31, 2007 as follows:

Distribution Period 2007	Distribution Record Date	Date of Distribution	Per Class A Unit	Per Subordinated Class B Unit	Total
Jan 1 - 31	Jan 31	Feb 15	0.0792	-	$ 573
Feb 1 - 28	Feb 28	Mar 15	0.0792	-	573
Mar 1 - 31	Mar 31	Apr 13	0.0792	-	573
Jan 1 – Mar 31	Mar 31	Apr 13	-	0.2376	510
Total distributions during the period					2,229
Accumulated distributions, beginning of period					7,275
Accumulated distributions, end of period					$ 9,504

11. Commitments

(a) The Partnership has an agreement regarding a sublease for office space until October 31, 2007 and will pay approximately $336,000 of rent and operating costs to that date.

(b) The Partnership has operating vehicle leases and the lease payments due for the years ending March 31 are as follows:

2008	$ 96
2009	36
2010	7

12. Payments to the General Partner

The General Partner will be allocated 0.01% of the taxable income of the Partnership for each fiscal year and 99.99% of the taxable income of the Partnership will be allocated to the holders of Class A Units and Subordinated Class B Units.

Tabular amounts in thousands of dollars, except unit and per unit amounts

13. Supplemental Information

Components of change in non-cash working capital balances:	Three Months Ended Mar 31, 2007	30-day Period Ended Mar 31, 2006[1]
Operating:		
Accounts receivable	$ 1,530	$ 509
Inventory	(771)	(605)
Due from vendors	-	(266)
Prepaid expenses	(151)	(331)
Accounts payable and accrued liabilities	(5,083)	2,663
Deferred revenue	(427)	-
	(4,902)	1,970
Financing:		
Accounts payable and accrued liabilities	-	812
	$ (4,902)	$ 2,782

[1]*From commencement of operations on March 2, 2006.*

14. Subsequent Event

On April 23, 2007, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on April 30, 2007.

Partnership Information

BOARD OF DIRECTORS

Kyle D. Kitagawa[1]
Chairman

Alan D. Archibald[2]

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Laura A. Cillis
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Rodney L. Carpenter
Vice President, Business Development

A. David Rosenthal
Vice President, Operations

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
Royal Bank of Canada, Calgary, AB

SOLICITORS
Blake, Cassels & Graydon LLP
Calgary, AB

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

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

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