Q1

Three months ended March 31, 2008

Canadian Energy SERVICES L.P.

Q1 INTERIM REPORT - 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, 2008.

Revenue for the first quarter was $28.3 million, an increase of $8.8 million or 45% over the first quarter last year. Net earnings were $0.56 per unit, an increase of $0.14 per unit over the $0.42 per unit generated for the same period last year.

"Our first quarter results demonstrated CES' ability to outperform expectations and position ourselves as the industry leader in the drilling fluids sector. Our revenue growth of 45% and earnings growth of 35% over last year, in a market where industry activity levels were down 6%, demonstrate the powerful value proposition we offer to our customers." said Tom Simons, the President and Chief Executive Officer of Canadian Energy Services Inc., the general partner of CES. "We recognize the commitment made by all our employees during the first quarter of 2008 which was required to generate this level of activity for CES. We are also very pleased with the startup of our US operations and look forward to introducing our value proposition and growing this new market segment."

CES attributes its growth in market size and market share over the last year to the use of its existing technologies and particularly the emergence of new technologies like Seal-AX™ (Patent Pending). By combining technologies with its superior service, CES helps its customers maximize their returns on invested capital through lower drilling costs and improved productivity.

	Three Months Ended March 31		
Financial Results	**2008**	2007	% Change
($000's, except per unit amounts)			
Revenue	**28,274**	19,518	45
Gross margin[1]	**8,969**	6,521	38
Net earnings before taxes	**5,333**	3,927	36
per unit – basic and diluted[2]	**0.57**	0.42	36
Net earnings	**5,282**	3,927	35
per unit – basic and diluted[2]	**0.56**	0.42	33
EBITDAC[1]	**5,852**	4,128	42
Funds flow from operations[1]	**5,703**	4,137	38
per unit – basic and diluted[2]	**0.61**	0.44	39
Distributions declared	**2,229**	2,229	-
per Class A Unit	**0.2376**	0.2376	-
per Subordinated Class B Unit	**0.2376**	0.2376	-

Financial Position	**Mar 31, 2008**	Dec 31, 2007	% Change
($000's)			
Working capital	**12,078**	7,552	60
Total assets	**86,466**	77,070	12
Long-term financial liabilities[3]	**3,005**	1,289	133
Unitholders' equity	**56,143**	53,047	6

		Three Months Ended March 31		
Partnership Units Outstanding[2]		**2008**	2007	% Change
End of period		**9,380,946**	9,380,946	-
Weighted average	- basic	**9,380,946**	9,380,946	-
	- diluted	**9,382,281**	9,380,946	-

Notes:
[1] *Refer to the "Non-GAAP Measures" on page 4 for further detail.*
[2] *Includes Class A Units and Subordinated Class B Units.*
[3] *Vehicle financing loans and committed loans excluding current portions.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2007 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 year ended December 31, 2007 and the 305-day period ended December 31, 2006 and the unaudited interim consolidated financial statements and notes thereto of the Partnership for the three months ended March 31, 2008 and 2007. The information contained in this MD&A was prepared up to and including May 2, 2008 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 readers 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: future estimates as to distribution levels; 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, the United States and internationally; 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, taxation of trusts, public partnerships and other flow-through entities, changes to the royalty regimes applicable to entities operating in the Western Canadian Sedimentary Basin; fluctuations in foreign exchange and interest rates; the ability of the Partnership to service debt and the potential suspension or reduction of distributions in respect thereof; and the other factors considered under "Risk Factors" in the Partnership's Annual Information Form dated March 26, 2008 and for the year ended December 31, 2007 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 months ended March 31, 2008 in comparison to the three month period ended March 31, 2007 for CES were:

- The Partnership generated revenue of $28.3 million for the first quarter of 2008, an increase of 45% over the same period last year. Overall industry activity dropped 6% from an average rig count in the first quarter of 2007 of 531 to 497 in 2008 based on industry published data for Western Canada. CES estimates its market share in Western Canada increased in the first quarter of 2008 to 18% from 17% last year. Operating days in Western Canada were estimated to be 8,736 for the first quarter, an increase of 18% from last year. Revenue was generated by wells the Partnerships classifies as medium/deep – 52%, horizontal – 41% and shallow – 7%. Last year revenue was generated 57%, 33% and 10% respectively. Revenue generated in the USA in the first quarter 2008 was $700,000 and nil in the same period last year.

- Gross margin of $9.0 million or 32% of revenue was generated for the period, as a percentage of revenue, was similar to the 33% gross margin generated in the same period last year. Margins will vary with the mix of well types and the areas of operations.

- Selling, general and administrative costs were $3.1 million for the first quarter in 2008, in comparison to $2.4 million for last year. This increase related to higher commissions driven by higher revenue, increased headcount with transfers of field personnel into lab and technical support positions in Calgary, the addition of key personnel in the USA, and general salary increases. Travel and advisory costs were also incurred in the first quarter of 2008 for international business development.

- Net earnings increased 35% over the same period last year. For the first quarter 2008, net earnings were $5.3 million, which was 19% of revenue and $0.56 per unit. Net earnings for the first quarter last year was $3.9 million, which was 20% of revenue and $0.42 per unit.

- The Partnership maintained its monthly distributions throughout the first quarter of 2008 at its target level of $0.0792 per unit to Class A unitholders. Quarterly distributions of $0.2376 were declared to the Subordinated Class B unitholders. The payout ratio (refer to "Non-GAAP Measures" on page 4) was 40% for the first quarter of 2008, in comparison to 55% for the same period last year. The determination of the payout ratio does not take into account changes in non-cash operating working capital items. Management continues to believe that an annualized target payout ratio of 80% is appropriate for the Partnership's business over the long term given the relatively low level of capital required to maintain and grow the business. The Board of Directors reviews the distributions on a monthly and quarterly basis in light of industry conditions, growth opportunities requiring expansion capital and management's forecast of distributable funds.

- Working capital was $12.1 million at March 31, 2008 and CES' long-term debt, represented by vehicle financing loans and committed facilities, excluding current portion, was $3.0 million. CES continued to maintain a strong balance sheet that positions the Partnership to capitalize on growth opportunities.

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 Canadian GAAP are also provided in this MD&A 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:

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" on page 5. Distributable funds is a measure used by management and investors to analyze the amount of funds available to distribute to unitholders before consideration of funds required for growth purposes. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 9 for the calculation of distributable funds.

EBITDAC – means net earnings before interest, taxes, amortization, loss on disposal of assets 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. EBITDAC was calculated as follows:

	Three Months Ended March 31	
	2008	2007
($000's)		
Net earnings	**5,282**	3,927
Add back (deduct):		
Amortization	**323**	169
Interest expense, net of interest income	**149**	(9)
Future income tax expense	**51**	-
Unit-based compensation	**43**	41
Loss on disposal of assets	**4**	-
EBITDAC	**5,852**	4,128

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

	Three Months Ended March 31	
	2008	2007
($000's)		
Cash provided by operating activities	**(511)**	(765)
Adjust for:		
Change in non-cash operating working capital	**6,214**	4,902
Funds flow from operations	**5,703**	4,137

Gross margin – means revenue less cost of sales, which represents 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 declared as a percentage of distributable funds. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 9 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.

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. Total active rigs for Western Canada are 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 the Partnership was contracted to provide drilling fluid 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 March 31			
	2008	2007	$ Change	% Change
($000's, except per unit amounts)				
Revenue	**28,274**	19,518	8,756	45
Cost of sales	**19,305**	12,997	6,308	49
Gross margin[1]	**8,969**	6,521	2,448	38
% of revenue	**32%**	33%		
Selling, general and administrative expenses	**3,117**	2,393	724	30
Amortization	**323**	169	154	91
Interest expense, net of interest income	**149**	(9)	158	n/m
Unit-based compensation	**43**	41	2	5
Loss on disposal of assets	**4**	-	4	n/m
Net earnings before taxes	**5,333**	3,927	1,406	36
Future income tax expense	**51**	-	51	n/m
Net earnings	**5,282**	3,927	1,355	35
per unit – basic and diluted	**0.56**	0.42	0.14	33

Notes:
[1] Refer to the "Non-GAAP Measures" on page 4 for further detail.
n/m – Calculation is not meaningful.

Revenue and Operating Activities

The Partnership generated revenue of $28.3 million for the three months ended March 31, 2008, an increase of 45% over the same period in 2007. Of the $8.8 million increase in revenue, $700,000 was generated in the USA.

The active rig count in Western Canada averaged 497 in the first quarter 2008 based on CAODC published monthly data for Western Canada. This was a 6% drop from the average rig count of 531 in the first quarter of 2007. As of April 29, 2008, there were 98 active rigs reported by CAODC, which compares to 93 a year earlier. This drop in activity in April, from the first quarter, reflected the seasonal decrease in activity due to spring breakup. Refer to the Quarterly Financial Summary on page 8.

CES estimated its market share in Western Canada in the first quarter of 2008 was 18%, an increase from the 17% estimated for the same period last year.

The top five customers of the Partnership accounted for approximately 33% of revenue in the first quarter of 2008, with the largest customer, a major exploration and production company, at 12%. For the same period last year, the Partnership's top five customers accounted for 31% of revenue, with the largest customer at 9%.

The Partnership estimated operating days as follows:

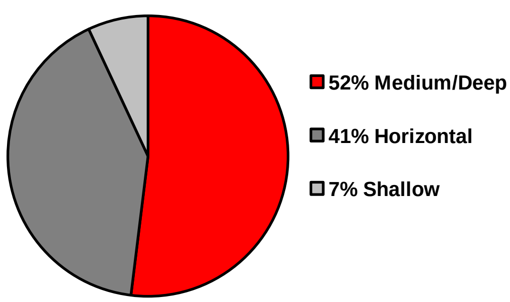
	Three Months Ended March 31	
	2008	2007
Canada	**8,736**	7,380
USA	**91**	-
Total Operating Days	**8,827**	7,380

CES generated incremental revenue in the first quarter 2008 with an estimated 91 operating days from operations in Colorado and Utah, USA. In addition, the new EQUAL Transport trucking operations based in Edson, Alberta and the growth in trucking for the Moose Mountain Mud division, contributed $1.1 million of revenue in the first quarter of 2008, up significantly from the $60,000 generated in the first quarter of 2007.

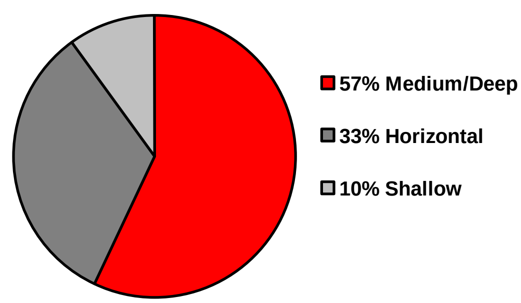
Overall, CES continued to focus its drilling fluids operations on medium to deep drilling and horizontal drilling which collectively represented approximately 93% of revenue for the three months ended March 31, 2008. CES' experience has been that the importance to the operator of drilling fluid systems' increases significantly with the depth and complexity of the well drilled.

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

Three Months Ended March 31, 2008



Three Months Ended March 31, 2007



Cost of Sales and Gross Margin

Gross margin of $9.0 million, or 32% of revenue, was generated for the first quarter in 2008. Gross margin was 33% of revenue for the same period last year. Gross margin represents the profit earned on revenue after deducting the cost of products, field labour and all related field and trucking costs. Margins vary due to a change in product mix, well type, geographic area and nature of activity (i.e. drilling fluids, trucking, etc.).

Cost of labour has less of an impact on margins as activity increases. Use of consultants and the variable component of compensation for employees provides a means to manage seasonal activity swings. Despite the reduced levels of industry activity from last year, CES has increased its operating days and increased its investment in personnel. CES field staff increased from an average headcount of 33 in the first quarter of 2007 to 55 in the first quarter of 2008, a 67% increase. The increased field staff was required to accommodate the sustained increase in market share growth. In addition, CES used approximately 24 consultants during the first quarter of 2008, as compared to 20 in the first quarter of 2007. CES is committed to the continued recruiting, training and retention of quality field personnel to ensure quality customer service at the well site.

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

SG&A for the three months ended March 31, 2008 was $3.1 million, an increase of $724,000 (or 30%) from the same period last year. This increase related to higher commissions driven by higher revenue, increased headcount with transfers of field personnel into lab and technical support positions in Calgary, the addition of key personnel in the USA and general salary increases. Travel and advisory costs were also incurred in the first quarter of 2008 for international business development.

CES had an average of 34 employees included in SG&A in the first quarter of 2008. This was an increase of 13% from the 30 employees in the first quarter of 2007. Two key positions were added to support the USA operations; Manager, Rocky Mountains Division, based in Denver, Colorado and a Senior Sales Representative based in Houston, Texas.

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

Other Expense Items

Amortization of property, equipment and intangibles was $323,000 for the first quarter of 2008 in comparison to $169,000 for the first quarter of 2007. The increase largely related to the investment in trucks in the second half of 2007 which are amortized on a straight-line basis over 5 years and the Edson facility which became operational in the last quarter of 2007 and is being amortized over 20 years.

Interest expense, net of interest income, consists of interest expense on vehicle financing loans, the committed facilities and the operating loan less interest earned on short-term investments.

Future Income Taxes

Based on its assets and liabilities as at March 31, 2008, the Partnership estimated the amount of its temporary differences between amounts recorded on its balance sheet and amounts carried for tax purposes and the period in which these differences will reverse. Details of taxable (deductible) temporary differences are as follows:

($000's)	**Mar 31, 2008**	**Jan 1, 2011**
Property and equipment	**49**	**(65)**
Goodwill	**2,170**	**7,428**
IPO underwriting costs originally netted with unitholders' capital	**(2,899)**	**(34)**
Net taxable (deductible) temporary differences	**(680)**	**7,329**
Tax rate	**0%**	**28%**
Future income taxes	**n/a**	**2,052**

Note:
n/a - Not applicable.

The Partnership estimated that the net deductible temporary differences existing at March 31, 2008 will reverse at a nil tax rate. The Partnership also estimated that $7.3 million of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2.1 million future income tax liability. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

QUARTERLY FINANCIAL SUMMARY

Quarters Ended	**Mar 31, 2008**	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007
Financial Results				
($000's, except per unit amounts)				
Revenue	**28,274**	18,600	16,104	6,198
Gross margin[1]	**8,969**	5,773	5,337	1,444
Net earnings (loss)	**5,282**	3,292	3,037	(2,955)
per unit – basic and diluted[2]	**0.56**	0.35	0.32	(0.32)
EBITDAC[1]	**5,852**	3,503	3,218	(396)
Funds flow from operations[1]	**5,703**	3,450	3,223	(400)
per unit – basic and diluted[2]	**0.61**	0.37	0.34	(0.04)
Distributions declared	**2,229**	2,229	2,229	2,229
per Class A Unit	**0.2376**	0.2376	0.2376	0.2376
per Subordinated Class B Unit	**0.2376**	0.2376	0.2376	0.2376
Partnership Units Outstanding[2]				
End of period	**9,380,946**	9,380,946	9,380,946	9,380,946
Weighted average – basic	**9,380,946**	9,380,946	9,380,946	9,380,946
Weighted average – diluted	**9,382,281**	9,380,946	9,390,442	9,380,946

Quarters Ended	Mar 31, 2007	Dec 31, 2006	Sep 30, 2006	Jun 30, 2006
Financial Results				
($000's, except per unit amounts)				
Revenue	19,518	16,633	14,619	7,839
Gross margin[1]	6,521	4,906	4,194	2,315
Net earnings (loss)	3,927	(31,263)	2,500	675
per unit – basic and diluted[2]	0.42	(3.33)	0.27	0.08
EBITDAC[1]	4,128	2,886	2,596	737
Funds flow from operations[1]	4,137	2,917	2,635	778
per unit – basic and diluted[2]	0.44	0.31	0.29	0.09
Distributions declared	2,229	2,229	2,217	2,124
per Class A Unit	0.2376	0.2376	0.2376	0.2376
per Subordinated Class B Unit	0.2376	0.2376	0.2376	0.2376
Partnership Units Outstanding[2]				
End of period	9,380,946	9,380,946	9,380,946	9,005,946
Weighted average – basic	9,380,946	9,380,946	9,244,805	8,907,045
Weighted average – diluted	9,380,946	9,380,946	9,244,898	8,912,539

Notes:
[1] Refer to the "Non-GAAP Measures" on page 4 for further detail.
[2] Includes Class A Units and Subordinated Class B Units. Between March 31, 2008 and May 2, 2008 there has been no change in the number of Partnership Units outstanding.

Seasonality of Operations

The Western Canadian drilling industry is subject to seasonality with activity peaking during the winter months in the fourth and first quarters. As temperatures rise in the spring, the ground thaws and becomes unstable. Government road bans severely restrict activity in the second quarter before equipment is moved for summer drilling programs in the third quarter. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2008, the Partnership had bank indebtedness of $6.3 million in comparison to $4.5 million at December 31, 2007. Working capital was $12.1 million, an increase of $4.5 million from December 31, 2007 primarily due to higher receivables on the increased activity level in the first quarter of 2008 from the fourth quarter of 2007.

Funds Flow from Operations and Distributions

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

	Three Months Ended March 31	
	2008	2007
($000's)		
Cash flow from operating activities	**(511)**	(765)
Adjust for:		
Change in non-cash operating working capital[2]	**6,214**	4,902
Funds flow from operations[1]	**5,703**	4,137
Less: Maintenance capital[3]	**115**	89
Distributable funds[1]	**5,588**	4,048
Distributions declared	**2,229**	2,229
Payout ratio[1]	**40%**	55%

Notes:
[1] *Refer to the "Non-GAAP Measures" on page 4 for further detail.*
[2] *See components of change in non-cash operating working capital balances below.*
[3] *Refer to the "Operational Definitions" on page 5 for further detail.*

Components of change in non-cash operating working capital balances – increase (decrease) in cashflow:	Three Months Ended March 31	
	2008	2007
($000's)		
Accounts receivable	**(7,770)**	1,530
Inventory	**(1,183)**	(771)
Prepaid expenses	**(106)**	(151)
Accounts payable and accrued liabilities	**2,845**	(5,083)
Deferred revenue	**-**	(427)
	(6,214)	(4,902)

Distributable funds were $5.6 million for the three months ended March 31, 2008, in comparison to $4.0 million for the same period in 2007. The Partnership declared monthly distributions of $0.0792 per Class A Common limited partnership unit ("Class A Unit") during the period and quarterly distributions of $0.2376 per Class B subordinated limited partnership unit ("Subordinated Class B Unit") to Subordinated Class B unitholders. 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 Partnership's initial public offering.

The target payout ratio on an annualized basis is 80% of distributable funds. The actual payout ratio for the first quarter of 2008 was 40% and it was 55% for the same period in 2007. Throughout the year, the actual payout ratio varies with the seasonality of the Partnership's 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 of the seasonality of the business or changes in the level of working capital, distributions could be funded through the credit facility. Refer to "Financing Activities" on page 10 for a discussion of the credit facilities.

Management continues to believe that the annual target level of 80% of distributable funds is appropriate for the Partnership's business over the long term given the relatively low level of capital required to maintain and grow the business. The Board of Directors reviews the distributions on a monthly and quarterly basis in light of industry conditions and, particularly, growth opportunities requiring expansion capital and management's forecast of distributable funds.

The following chart summarizes the Partnership's distributions in relation to Canadian GAAP performance measures:

	Three Months Ended March 31	
	2008	2007
($000's)		
Cash flow from operating activities	**(511)**	(765)
Net earnings	**5,282**	3,927
Distributions declared	**2,229**	2,229
Shortfall of cash flows from operating activities over distributions declared	**(2,740)**	(2,994)
Excess of net earnings over distributions declared	**3,053**	1,698

The shortfall of cash flows from operating activities over distributions declared in the three months ended March 31, 2008 resulted from the timing of the changes in certain non-cash working capital balances, namely accounts receivable and inventory.

There was an excess of net earnings over distributions declared in the three months ended March 31, 2008 of $3.0 million.

Investing Activities

	Three Months Ended March 31	
	2008	2007
($000's)		
Expansion capital	**565**	238
Maintenance capital	**115**	89
Total investment in property and equipment	**680**	327
Add (deduct):		
Decrease in non-cash investing working capital	**66**	-
Vehicle financing	**(286)**	(239)
Cash used for investment in property and equipment	**460**	88

The Partnership incurred $680,000 in capital expenditures during the three months ended March 31, 2008 and $327,000 for the same period last year. For both periods, the expenditures were primarily for field vehicles. A portion of the field vehicles purchased were financed by third parties and no actual cash outlay was incurred.

Financing Activities

On February 26, 2008, the Partnership secured new debt financing with a commercial bank to borrow up to $12.0 million on a demand revolving loan facility based on the value of certain accounts receivable and inventory. Any amounts drawn on this facility incur interest at the bank's prime rate plus 0.50%. At March 31, 2008, there was $6.3 million drawn on this operating facility.

The Partnership also established two long-term committed debt facilities with the same commercial bank to borrow up to $2.75 million. The first committed loan was for $1.75 million with a five year term, with the bank reserving the right to extend the term by two additional five year terms. The monthly payments are amortized over 15 years. The second committed loan was for $0.8 million and has a five year term. Both loans incur interest at the bank's prime rate plus 0.75%. At March 31, 2008, there was $2.55 million drawn on these two committed facilities.

These facilities are secured by a general security agreement creating a first priority security interest in all personal property of the General Partner, the Partnership and its Canadian subsidiary, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's Canadian subsidiary, and a demand collateral mortgage on the Partnership's Edson, Alberta property.

These facilities also impose the following financial covenants on the Partnership: its ratio of debt to equity must not exceed 2.50 to 1.00 (tested quarterly); its ratio of current assets to current liabilities must not be less than 1.25 to 1.00 (tested quarterly); and its debt service coverage ratio must not be less than 1.25 to 1.00 (tested annually based on the audited consolidated financial statements). 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 financial statements, less any intangible assets including goodwill. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the financial statements less current portion of long-term debt. 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 the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without prior written consent of the commercial bank. As at March 31, 2008, the Partnership has met all of the requirements under this agreement.

These new facilities were used to repay and cancel the Partnership's bank debt that was in place at December 31, 2007.

Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet these long-term payment obligations.

Unitholders' Equity

No additional units were issued during the three month period ended March 31, 2008.

On March 2, 2008, the remaining 353,445 Class A Units that were being held in escrow were released from escrow.

Unit Option Plan

The Partnership may provide additional compensation to 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, 2008, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 243,095 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.

No units were granted, exercised or cancelled in the three month period ended March 31, 2008.

Commitments / Contractual Obligations

At March 31, 2008, the Partnership had the following financial commitments with payments due for the years ending March 31 as follows:

($000's)	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Long-term debt, including current portion	**931**	**766**	**475**	**324**	**1,440**	**3,936**
Office rent	**597**	**387**	**75**	**78**	**13**	**1,150**
Construction of buildings	**112**	**-**	**-**	**-**	**-**	**112**
Vehicle leases	**39**	**20**	**1**	**-**	**-**	**60**
Total	**1,679**	**1,173**	**551**	**402**	**1,453**	**5,258**

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 three months ended March 31, 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting Changes

On January 1, 2008, the Partnership adopted CICA Handbook Section 1535 – Capital Disclosures, Section 3031 – Inventories, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. Section 1535 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. Section 3031 replaces Section 3030 – Inventories, and requires enhanced disclosure and measurement of inventories at the lower of cost and net realizable value. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments.

In February 2008, the CICA issued 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. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. It 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. The impact of the initial application of these standards is not expected to be significant.

New Accounting Developments

The Partnership continues to monitor and assess the impact of the convergence of Canadian GAAP and International Financial Reporting Standards ("IFRS") by 2011.

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 AND NEW DEVELOPMENTS

The business of the Partnership is subject to certain risks and uncertainties. For a thorough discussion of such risks and uncertainties, the Reader should refer to CES' 2007 Annual Report and the Annual Information Form dated March 26, 2008 in respect of the year ended December 31, 2007, both of which are available on the Partnership's SEDAR profile at www.sedar.com.

CORPORATE GOVERNANCE

For information regarding the corporate governance policies and practices of the Partnership and the General Partner, the Reader should refer to CES' 2007 Annual Report, the Annual Information Form dated March 26, 2008 for the year ended December 31, 2007 and the Information Circular and Proxy statement dated April 7, 2008, all of which are available on the Partnership's SEDAR profile at www.sedar.com.

OUTLOOK

Management of the Partnership continues to believe that it is well positioned with its technology based service offerings, expanding geographic diversification and broad customer base to continue to grow the business. Any increase in industry activity should further improve CES' expected growth.

A number of indicators are supporting increased industry activity in the second half of 2008 and into 2009. The current strengthening of natural gas prices from the depressed levels in 2007, if sustained, will lead to increased drilling activity. The Petroleum Services Association of Canada recently provided some optimism in that they forecast industry drilling levels in Alberta will start to improve in 2008.

The Partnership remains active in key areas such as the Bakken light oil resource play in Saskatchewan and horizontal drilling activity in the Canadian oilsands. The lower Shaunavon oil play in southwest Saskatchewan provides another promising area of targeted growth. These remain significant and growing markets where we expect CES' technology, such as Liquidrill™ in the Bakken and Liquidrill™/Tarbreak and Poly-Core used in the oilsands, will drive the growth of our business.

Recent developments in the ability of operators to apply multiple stage fracturing techniques in horizontal wells in tight formations in the WCSB such as the Montney and the Cadomin have stimulated the drilling activity of these deeper, complex wells. CES technologies, such as Seal-AX™ (Patent Pending), lowers costs to drill these wells, which positions the Partnership to benefit from this industry development.

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. We are very pleased by the results of our first quarter in 2008. CES' technologies have global application and the Partnership 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. We believe the United States operations and international projects we are pursuing offer significant growth opportunities. Procuring materials and providing engineering support for these new activities can be achieved without adversely affecting our traditional markets.

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 (unaudited)
(stated in thousands of dollars)

	Mar 31, 2008	Dec 31, 2007
ASSETS		
Current assets		
Accounts receivable	**$ 29,679**	$ 21,909
Inventory	**7,369**	6,186
Prepaid expenses	**296**	190
	37,344	28,285
Property and equipment (note 4)	**7,055**	6,724
Intangible assets	**101**	95
Goodwill	**41,966**	41,966
	$ 86,466	$ 77,070
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 5)	**$ 6,276**	$ 4,548
Accounts payable and accrued liabilities	**16,975**	14,196
Distributions payable	**1,084**	1,084
Current portion of long-term debt (note 6)	**931**	905
	25,266	20,733
Long-term debt (note 6)	**3,005**	1,289
Future income tax liability (note 7)	**2,052**	2,001
	5,057	3,290
Unitholders' equity		
Class A Units (note 8)	**66,959**	66,959
Subordinated Class B Units (note 8)	**21,514**	21,514
Contributed surplus	**316**	273
Deficit	**(32,646)**	(35,699)
	56,143	53,047
	$ 86,466	$ 77,070

Commitments (note 12)

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, Comprehensive Income and Deficit (unaudited)
(stated in thousands of dollars except per unit amounts)

	Three Months Ended March 31	
	2008	2007
Revenue	**$ 28,274**	$ 19,518
Cost of sales	**19,305**	12,997
Gross margin	**8,969**	6,521
Expenses		
Selling, general and administrative expenses	**3,117**	2,393
Amortization	**323**	169
Interest expense, net of interest income	**149**	(9)
Unit-based compensation (note 9)	**43**	41
Loss on disposal of assets	**4**	-
	3,636	2,594
Net earnings for the period before taxes	**5,333**	3,927
Future income tax expense (note 7)	**51**	-
Net earnings for the period	**5,282**	3,927
Other comprehensive income	**-**	-
Comprehensive earnings for the period	**5,282**	3,927
Deficit, beginning of period	**(35,699)**	(34,084)
Unitholders' distributions declared (note 11)	**(2,229)**	(2,229)
Deficit, end of period	**$ (32,646)**	$ (32,386)
Net earnings per unit (note 10)		
Basic and diluted	**$ 0.56**	$ 0.42

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

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

	Three Months Ended March 31	
	2008	2007
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net earnings for the period	**$ 5,282**	$ 3,927
Items not involving cash:		
Amortization	**323**	169
Future income tax expense (note 7)	**51**	-
Unit-based compensation	**43**	41
Loss on disposal of assets	**4**	-
Change in non-cash operating working capital (note 15)	**(6,214)**	(4,902)
	(511)	(765)
FINANCING ACTIVITIES:		
Repayment of long-term debt	**(1,094)**	(118)
Increase in long-term debt	**2,550**	-
Distributions to unitholders (note 11)	**(2,229)**	(2,229)
	(773)	(2,347)
INVESTING ACTIVITIES:		
Investment in property and equipment (note 4)	**(460)**	(88)
Investment in intangible assets	**(8)**	-
Proceeds on disposal of fixed assets	**24**	-
	(444)	(88)
DECREASE IN CASH AND CASH EQUIVALENTS	**(1,728)**	(3,200)
Cash and cash equivalents (bank indebtedness), beginning of period	**(4,548)**	4,194
Cash and cash equivalents (bank indebtedness), end of period (note 5)	**$ (6,276)**	$ 994

SUPPLEMENTARY CASH FLOW DISCLOSURE

Interest paid	**$ 130**	$ 3
Taxes paid	**$ -**	$ -

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

(tabular amounts in thousands of dollars, except unit and per unit amounts)

1. The Partnership

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

2. Basis of Presentation and Significant Accounting Policies

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 financial statements for the period ended December 31, 2007, except for as noted below. These interim financial statements do not conform in all respects to the requirements of Canadian GAAP for annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Partnership's 2007 Annual Report for the year ended December 31, 2007.

On January 1, 2008, the Partnership adopted CICA Handbook Section 1535 – Capital Disclosures, Section 3031 – Inventories, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. Section 1535 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. Section 3031 replaces Section 3030 – Inventories, and requires enhanced disclosure and measurement of inventories at the lower of cost and net realizable value. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments.

In February 2008, the CICA issued 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. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. It 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. The impact of the initial application of these standards is not expected to be significant.

3. Inventory

The cost of inventory expensed in cost of sales for the three months ended March 31, 2008 was $12.3 million (three months ended March 31, 2007 - $9.4 million).

4. Property and Equipment

March 31, 2008	Cost	Accumulated Amortization	Net Book Value
Computer equipment and software	$ **408**	$ **194**	$ **214**
Vehicles	**2,262**	**656**	**1,606**
Trucks	**1,288**	**149**	**1,139**
Field equipment	**1,260**	**220**	**1,040**
Furniture and fixtures	**176**	**45**	**131**
Buildings	**1,734**	**87**	**1,647**
Tanks	**456**	**20**	**436**
Land	**842**	**-**	**842**
	$ **8,426**	$ **1,371**	$ **7,055**

(tabular amounts in thousands of dollars, except unit and per unit amounts)

Details of investments in property and equipment during the three months ended March 31, 2008 were as follows:

Total investment in property and equipment	**$ 680**
Less:	
Vehicle financing	**(286)**
Plus:	
Decrease in non-cash investing working capital	**66**
Cash used for investment in property and equipment	**$ 460**

5. Bank Indebtedness

On February 26, 2008 the Partnership established a new revolving demand loan with a commercial bank permitting it to borrow up to $12.0 million, subject to the value of certain accounts receivable and inventory, with amounts drawn on the facility incurring interest at the bank's prime rate plus 0.50%. The facility is secured by a general security agreement creating a first priority security interest in all personal property of the General Partner, the Partnership and its subsidiaries, and an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries. The new facility was used to repay and cancel the amounts drawn on the previous facility.

The amount drawn on the facility at March 31, 2008 was $6.3 million. The amount drawn on the previous facility at December 31, 2007 was $4.5 million.

6. Long-term Debt

The Partnership has long-term debt as follows:

	Mar 31, 2008	Dec 31, 2007
Vehicle financing loans	**$ 1,409**	$ 1,277
Other long-term debt	**2,527**	917
	3,936	2,194
Less current portion	**(931)**	(905)
	$ 3,005	$ 1,289

On February 26, 2008 the Partnership established two long-term debt facilities with a commercial bank. The first, a committed loan for $1.75 million, is repayable in fixed monthly principal payments of $10,000 plus interest at the bank's prime rate plus 0.75%. This loan has an initial term of five years, with the bank reserving the right to extend the term by two further five year periods at its discretion. The second, a committed loan for $0.8 million, is repayable over five years in fixed monthly principal payments of $13,000 plus interest at the bank's prime rate of interest plus 0.75%. The long-term debt facilities are secured by a general security agreement creating a first priority security interest in all personal property of the General Partner, the Partnership and its Canadian subsidiary, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's Canadian subsidiary, and a demand collateral mortgage on the Partnership's Edson, Alberta property. These new facilities were used to repay and cancel the Partnership's bank debt that was in place at December 31, 2007.

Vehicle financing loans are at interest rates of 0% to 4.9%, are repayable in monthly payments of $800 - $2,100 and are maturing from January 2009 to December 2012.

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

2009	**$ 931**
2010	**766**
2011	**475**
2012	**324**
2013	**1,440**
Total	**$ 3,936**

(tabular amounts in thousands of dollars, except unit and per unit amounts)

7. Future Income Taxes

Based on its assets and liabilities as at March 31, 2008, the Partnership estimated the amount of its temporary differences between amounts recorded on its balance sheet and amounts carried for tax purposes and the period in which these differences will reverse. Details of taxable (deductible) temporary differences are as follows:

	Mar 31, 2008
Property and equipment	**$ 49**
Goodwill	**2,170**
IPO underwriting costs originally netted with unitholders' capital	**(2,899)**
Net deductible temporary differences	**$ (680)**

The Partnership estimated that the net deductible temporary differences existing at March 31, 2008 will reverse at a nil tax rate. The Partnership also estimated that $7.3 million of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2.1 million future income tax liability. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

8. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units. At March 31, 2008 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, 2008.

9. 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, 2008, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 243,095 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.

A summary of changes to the unit options granted under the Unit Option Plan for the three months ended March 31 is presented below:

	2008		2007	
	Options	Average Exercise Price	Options	Average Exercise Price
Outstanding, beginning of period	**695,000**	**$ 8.78**	669,500	$ 9.16
Granted during period	**-**	**-**	75,000	6.07
Cancelled during period	**-**	**-**	-	-
Outstanding, end of period	**695,000**	**$ 8.78**	744,500	$ 8.84
Exercisable, end of period	**406,000**	**$ 9.02**	-	-

The following table summarizes information about the Unit Options outstanding at March 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise price	Options	Weighted average exercise price	Weighted average remaining term in years	Options	Weighted average exercise price
$6.07-$8.00	**305,000**	**$ 7.36**	**3.3**	**154,333**	**$ 7.51**
$8.01-$10.00	**390,000**	**9.88**	**3.0**	**251,667**	**9.94**
Total	**695,000**	**$ 8.78**	**3.1**	**406,000**	**$ 9.02**

(tabular amounts in thousands of dollars, except unit and per unit amounts)

10. Earnings Per Unit

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

	Three Months Ended Mar 31	
	2008	2007
Earnings	**$ 5,282**	$ 3,927
Weighted average number of units outstanding:		
Basic	**9,380,946**	9,380,946
Effect of unit options	**1,335**	-
Diluted	**9,382,281**	9,380,946
Earnings per unit:		
Basic and diluted	**$ 0.56**	$ 0.42

11. Cash Distributions

The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the three month period ended March 31, 2008 as follows:

Distribution Period 2008	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 - 29	Feb 29	Mar 14	**0.0792**	**-**	**573**
Mar 1 - 31	Mar 31	Apr 14	**0.0792**	**-**	**573**
Jan 1 - Mar 31	Mar 31	Apr 14	**-**	**0.2376**	**510**
Total distributions declared during the period			**$ 0.2376**	**$ 0.2376**	**$ 2,229**

12. Commitments

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

	Construction of buildings	Office rent	Vehicle leases	Total
2009	**$ 112**	**$ 597**	**$ 39**	**$ 748**
2010	**-**	**387**	**20**	**407**
2011	**-**	**75**	**1**	**76**
2012	**-**	**78**	**-**	**78**
2013	**-**	**13**	**-**	**13**
Total	**$ 112**	**$ 1,150**	**$ 60**	**$ 1,322**

13. Financial Instruments

(a) Fair value

The carrying values of financial liabilities where interest is charged based on a variable rate are equal to fair value. The carrying value of long-term debt where interest is charged at a fixed rate is not significantly different than fair value. The carrying values of all other financial instruments approximate their fair value due to the relatively short period to maturity of the instruments.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

(b) Credit risk

The Partnership manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable includes balances from a large number of customers operating primarily in the oil and natural gas industry. Accordingly, the Partnership views the credit risks on these amounts as normal for the industry.

An analysis of accounts receivable that are past due but not impaired is as follows:

	Mar 31, 2008	Dec 31, 2007
Past due 61-90 days	**$ 2,042**	$ 2,787
Past due 91-120 days	**504**	510
Past 120 days	**520**	127
	$ 3,066	$ 3,424

The Partnership reduces an account receivable to its estimated recoverable amount as soon as it is known to be not collectible in full. If it is expected that further losses will be incurred, an allowance for doubtful accounts is recorded. As at March 31, 2008 the Partnership had recorded an allowance of $68,000 (December 31, 2007 - $68,000) in accounts receivable as not collectible.

(c) Interest rate risk

The Partnership is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Partnership manages this risk by continuously monitoring interest rate trends and forecasted economic conditions. The exposure to interest rate risk on financial liabilities is detailed in the liquidity risk section of this note.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Partnership's net earnings would not have been significantly impacted for the three months ended March 31, 2008. The Partnership's sensitivity to interest rates has increased during the three months ended March 31, 2008 due to the increase in variable rate borrowings.

(d) Foreign currency risk

The Partnership's foreign currency risk arises from accounts payable denominated in foreign currencies and on the translation of net investments in foreign operations. Gains or losses resulting from this risk are included in earnings. The Partnership manages foreign currency risk by continuously monitoring exchange rate trends and forecasted economic conditions.

A 5% increase or decrease is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. If rates had been 5% higher/lower and all other variables were held constant, the Partnership's net earnings would not have been significantly impacted for the three months ended March 31, 2008.

(e) Liquidity risk

The following table details the remaining contractual maturities of the Partnership's financial liabilities (includes interest and principal cash flows where applicable):

	Less than 3 months	3 months to 1 year	1-5 years	5+ years	Total
Accounts payable and accrued liabilities (interest free)	**$ 16,539**	**$ 436**	**$ -**	**$ -**	**$ 16,975**
Long-term debt at fixed interest rates	**172**	**506**	**776**	**-**	**1,454**
Long-term debt at variable interest rates	**104**	**305**	**2,626**	**-**	**3,035**
	$ 16,815	**$ 1,247**	**$ 3,402**	**$ -**	**$ 21,464**

The Partnership manages liquidity risk by maintaining banking facilities and continuously monitoring forecasted and actual cash flows.

(tabular amounts in thousands of dollars, except unit and per unit amounts)

14. Capital Management

The Partnership considers capital to include unitholders' equity, long-term debt (including current portion), cash and cash equivalents and bank indebtedness. The Partnership's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk and providing unitholders with targeted distributions.

Management of the Partnership sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Partnership may adjust the level of distributions paid to unitholders, return capital to unitholders, issue new units, sell assets to reduce debt or issue new debt.

In addition to monitoring the externally imposed capital requirements detailed below, the Partnership manages capital by analyzing working capital levels, payout ratio, forecasted cash flows and general economic conditions. Payout ratio is calculated as distributions declared as a percentage of cash flow from operations before changes in non-cash operating working capital.

The Partnership has the following externally imposed capital requirements pursuant to the revolving demand facility agreement: its ratio of debt to equity must not exceed 2.50 to 1.00 (tested quarterly); its ratio of current assets to current liabilities must not be less than 1.25 to 1.00 (tested quarterly); and its debt service coverage ratio must not be less than 1.25 to 1.00 (tested annually based on the audited consolidated financial statements). 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 financial statements, less any intangible assets including goodwill. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the financial statements less current portion of long-term debt. 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 the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without prior written consent of the commercial bank. As at March 31, 2008, the Partnership has met all of the requirements under this agreement.

15. Supplemental Information

Components of change in non-cash working capital balances:	**Three Months Ended Mar 31** **2008**	2007
Operating:		
Accounts receivable	**$ (7,770)**	$ 1,530
Inventory	**(1,183)**	(771)
Prepaid expenses	**(106)**	(151)
Accounts payable and accrued liabilities	**2,845**	(5,083)
Deferred revenue	**-**	(427)
	(6,214)	(4,902)
Investing:		
Accounts payable and accrued liabilities	**(66)**	-
	$ (6,280)	$ (4,902)

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

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

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

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

REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.,
Calgary, AB and Toronto, ON

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: CEU.UN

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