Canadian Energy SERVICES L.P.

Three Months Ended June 30, 2007

Q2 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 June 30, 2007.

"Our second quarter results were in line with expectations due to a normal seasonal low for industry activity levels, exacerbated this year by a severe drop in natural gas drilling activity due to low natural gas prices." said Tom Simons, the President and Chief Executive Officer of Canadian Energy Services Inc., the general partner of CES. "We were pleased that our growth in market share from last year translated into operational and financial results for CES that were stronger than industry averages on a relative basis. We remain committed to our growth strategies going forward."

CES continues to attribute its growth in market size and market share to the use of its existing technologies and particularly the emergence of new technologies like Seal-AX™ (Patent Pending). Combining CES' technologies with its superior service helps the Partnership's customers achieve their objectives of maximizing their returns on invested capital through some combination of lower drilling costs and improved productivity.

Financial Results	Three Months Ended Jun 30, **2007**	2006	**Six Months Ended Jun 30, 2007**	121-day Period Ended Jun 30, 2006[1]
($000's except per unit amounts)				
Revenue	**6,198**	7,839	**25,716**	14,761
Gross margin[2]	**1,444**	2,315	**7,965**	4,084
Net earnings (loss) before income taxes	**(653)**	675	**3,274**	1,954
per unit – basic and diluted[3]	**(0.07)**	0.08	**0.35**	0.22
Net earnings (loss)	**(2,955)**	675	**972**	1,954
per unit – basic and diluted[3]	**(0.32)**	0.08	**0.10**	0.22
EBITDAC[2]	**(396)**	737	**3,732**	2,039
Funds flow from operations[2]	**(400)**	778	**3,737**	2,089
per unit – basic and diluted[3]	**(0.04)**	0.09	**0.40**	0.23
Distributions declared				
per Class A Unit	**0.2376**	0.2376	**0.4752**	0.3168
per Subordinated Class B Unit	**0.2376**	0.2376	**0.4752**	0.3168

Financial Position	**Jun 30, 2007**	Dec 31, 2006
($000's)		
Working capital	**8,769**	10,920
Total assets	**60,891**	74,910
Long-term financial liabilities[4]	**641**	616
Unitholders' equity	**51,092**	54,494

Partnership Units Outstanding[3]	Three Months Ended Jun 30, **2007**	2006	**Six Months Ended Jun 30, 2007**	121-day Period Ended Jun 30, 2006[1]
End of period	**9,380,946**	9,005,946	**9,380,946**	9,005,946
Weighted average - basic	**9,380,946**	8,907,045	**9,380,946**	8,906,779
- diluted	**9,380,946**	8,912,539	**9,385,984**	8,911,028

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 11).

[4] Vehicle financing loans, excluding current portion.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three Months Ended June 30, 2007

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 June 30, 2007 and 2006, the six month period ended June 30, 2007 and the 121-day period ended June 30, 2006. The information contained in this MD&A was prepared up to and including August 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: 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 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 June 30, 2007 for CES were:

- The Partnership generated revenue of $6.2 million in the quarter with an estimated market share of 17% compared to the estimated 12% market share in the second quarter of 2006. Total industry drilling activity in the second quarter dropped 55% from the same quarter last year. CES' revenue decrease from the second quarter of 2006 was only 21% reflecting our improved market share.

- Gross margin of $1.4 million or 23% of revenue was generated for the second quarter which, as a percentage of revenue, was lower than the 30% gross margin generated in the second quarter of 2006. The drop in margin is primarily due to the impact of higher fixed labour costs on lower revenue levels. CES is committed to the continued training and retention of quality personnel.

- Selling, general and administrative ("SG&A") costs were $1.8 million in the second quarter, an increase of $262,000 from the second quarter in 2006. This increase largely related to higher labour costs and staff levels. CES was successful in attracting experienced and qualified key personnel.

- A net loss of $3.0 million was experienced in the second quarter primarily due to the requirement to recognize a future income tax expense of $2.3 million resulting from the enacted tax rules for flow-through entities such as CES. Net earnings of $675,000 were generated in the second quarter of 2006.

- The Partnership continued to maintain its level of distributions and declared monthly distributions of $0.0792 per unit to Class A unitholders for the three months ended June 30, 2007. A quarterly distribution of $0.2376 was declared to the Subordinated Class B unitholders of record on June 30, 2007. The target payout ratio (refer to "Non-GAAP Measures" on page 4) on an annualized basis continues to be 80% of distributable funds. The actual payout ratio for the second quarter was a negative 423%. The actual payout ratio for the twelve month period ended June 30, 2007 was 104%. Management anticipates that the twelve month trailing payout ratio will drop for the balance of the year. 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 $8.8 million at June 30, 2007 and CES' only long-term debt, representing vehicle financing loans, was $641,000. CES continues to maintain a strong balance sheet despite current industry activity seasonal and cyclical lows. During the quarter the Partnership's operating line of credit was increased from $3.0 million to $5.0 million. To date, this line remains undrawn.

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 as 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:

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 10 for the calculation of distributable funds.

EBITDAC – means net earnings (loss) before interest, taxes, amortization, loss on disposal of assets, goodwill impairment 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 Jun 30,		**Six Months Ended**	121-day Period Ended
	2007	2006	**Jun 30, 2007**	Jun 30, 2006[1]
($000's)				
Net earnings (loss)	**(2,955)**	675	**972**	1,954
Add back (deduct):				
Interest income, net of interest expense	**4**	(41)	**(5)**	(50)
Future income tax expense	**2,302**	-	**2,302**	-
Amortization of property and equipment	**185**	74	**354**	97
Loss on disposal of assets	**25**	-	**25**	-
Unit-based compensation	**43**	29	**84**	38
EBITDAC	**(396)**	737	**3,732**	2,039

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

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 Jun 30,		**Six Months Ended**	121-day Period Ended
	2007	2006	**Jun 30, 2007**	Jun 30, 2006[1]
($000's)				
Cash provided by (used in) operating activities	**5,363**	3,942	**4,598**	7,223
Adjust for:				
Change in non-cash operating working capital	**(5,763)**	(3,164)	**(861)**	(5,134)
Funds flow from operations	**(400)**	778	**3,737**	2,089

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

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 10 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 Jun 30, **2007**	2006	**Six Months Ended Jun 30, 2007**	121-day Period Ended Jun 30, 2006[1]
($000's, except per unit amounts)				
Revenue	**6,198**	7,839	**25,716**	14,761
Cost of sales	**4,754**	5,524	**17,751**	10,677
Gross margin[2]	**1,444**	2,315	**7,965**	4,084
% of revenue	**23%**	30%	**31%**	28%
Selling, general and administrative expenses	**1,840**	1,578	**4,233**	2,045
Amortization of property and equipment	**185**	74	**354**	97
Unit-based compensation	**43**	29	**84**	38
Loss on disposal of assets	**25**	-	**25**	-
Interest income, net of interest expense	**4**	(41)	**(5)**	(50)
Net earnings (loss) before taxes	**(653)**	675	**3,274**	1,954
Future income tax expense	**2,302**	-	**2,302**	-
Net earnings (loss)	**(2,955)**	675	**972**	1,954
per unit – basic and diluted	**(0.32)**	0.08	**0.10**	0.22

Notes:
[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 June 30, 2007 was $6.2 million, a drop of 21% from the same quarter last year primarily as a result of the significant drop in industry drilling activity.

The active rig count in Western Canada averaged 148 for the second quarter in 2007 based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada. This was a 55% drop from the average rig count of 327 in the second quarter in 2006. The level of industry activity in the second quarter is the lowest it has been in the last five years. The reduced level of activity was aggravated by wet weather in June when rig activity traditionally starts to pick up again. As of July 31st, there were 378 active rigs reported by CAODC.

CES estimated its market share in the second quarter of 2007 at 17%, consistent with the first quarter of 2007, and well ahead of the second quarter last year which was estimated to be 12%.

The top five customers of the Partnership accounted for approximately 53% of revenue in the first quarter of 2007, with the largest customer, a major exploration and production company, at 18%. In the first quarter of 2006, the top five customers accounted for 44% of revenue, with the largest customer at 11%.

The Partnership estimated operating days as follows:

	Three Months Ended Jun 30,		**Six Months Ended**	121-day Period Ended
	2007	2006	**Jun 30, 2007**	Jun 30, 2006[1]
Operating days	**2,275**	2,366	**9,655**	4,196

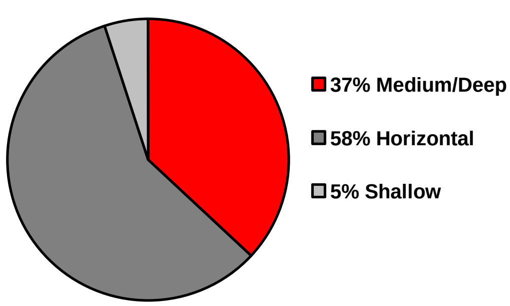
Note:
[1]From commencement of operations on March 2, 2006.

CES' estimated operating days in the second quarter decreased 4% from the second quarter last year which is lower than the overall revenue drop between the same two periods of 21%. This lower drop in operating days is a result of a proportionate shift in the area of operations to horizontal drilling with lower revenue per day generated. The Partnership's Moose Mountain Mud division generated a significant portion of the revenue in the second quarter as the active rig count servicing the Bakken formation in Saskatchewan remained consistent through the quarter.

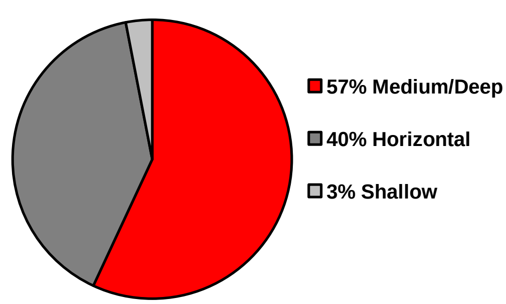
CES continued to focus on medium to deep drilling and horizontal drilling which collectively represented approximately 95% of revenue for the second quarter in 2007. CES' experience has been that the importance to the operator of drilling fluid systems' increases significantly with the depth and complexity of the well drilled.

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

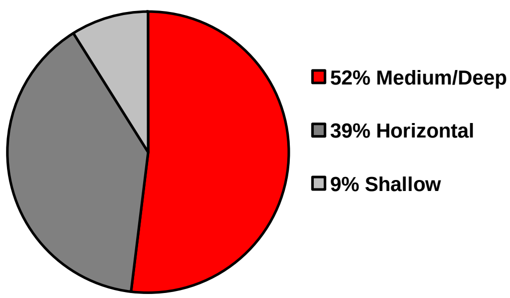
Three Months Ended June 30, 2007



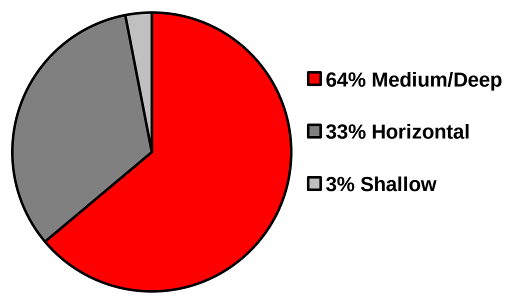
Three Months Ended June 30, 2006



Six Months Ended June 30, 2007



121-day Period Ended June 30, 2006



Cost of Sales and Gross Margin

Gross margin of $1.4 million, or 23% of revenue, was generated for the second quarter in 2007. Gross margin was 30% of revenue for the second quarter in 2006. Gross margin represents the profit earned on revenue after deducting the cost of products, field labour and all related field costs. Margins can vary due to a change in product mix.

Margins have dropped from the second quarter in 2006 primarily due to the impact of higher fixed costs of labour on a lower revenue base. Margins on product sales have not deteriorated. CES has been addressing labour costs through day rates for field engineering services and general product pricing with customers, however it has become increasingly difficult to pass on increased costs. In addition, CES field staff have increased from an average headcount of 25 in second quarter of 2006 to 34 in 2007, a 36% increase. The increased field staff was required to accommodate the sustained increase in market share growth. The Partnership continues to use consultants to manage the seasonal fluctuations in activity and accordingly these consulting costs were down 26% from the same period last year. CES is committed to the continued recruiting, training and retention of quality field personnel to ensure quality customer service at the well site.

As CES depletes its current product inventories and procurement increases with activity, management believes that initiatives undertaken with key suppliers in the first quarter to lower costs will start to realize benefits. The Partnership has established a new staff position for product procurement to ensure continued focus on cost effective procurement strategies.

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

SG&A for the second quarter in 2007 was $1.8 million, an increase of $262,000 (17%) from the second quarter in 2006. This increase related to higher compensation costs, sales commissions and higher costs for training, offset in part by the absence of certain start-up costs incurred in the second quarter of 2006 for items such as the office move and recruiting fees.

Higher compensation costs follow an increased employee headcount over last year. CES had an average of 26 employees under SG&A in the second quarter of 2006. This increased 19% to 31 in the second quarter of 2007. Key positions were recruited over the last year in sales, finance and technical support.

Although sales commissions are directly related to revenue generated, the increase in sales personnel has resulted in a higher proportion of revenue that is now subject to commissions. Revenue generated by executive management is not commissionable.

During the second quarter of 2007, the Partnership held two schools for mud technicians: an intermediate level and an advanced level. Certain members of management, sales and finance attended in addition to the field staff as was considered appropriate. In addition, the annual spring sales and operations meetings, which included annual reviews, a safety session and a general business / finance update were held in April and included in the second quarter costs. These meetings were held at the end of March in 2006 and included in the results for the 30-day period ended March 31, 2006.

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

Other Expense (Income) Items

Amortization of property and equipment was $185,000 for the second quarter in 2007 and $74,000 for the same period in 2006. The increase 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.

Loss on disposal of assets related to the disposal of four field vehicles with a total cost of $173,000 and a total net book value of $102,000. Proceeds realized on disposition were $77,000 resulting in a loss on disposal of $25,000 being recorded in the second quarter of 2007.

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

Future Income Taxes

On June 22, 2007 the Government of Canada enacted new legislation imposing additional income taxes upon flow-through entities including public partnerships such as Canadian Energy Services L.P., effective January 1, 2011. Prior to June 2007, the income of the Partnership was not subject to tax and therefore no future income taxes were recognized on temporary differences between amounts recorded on its balance sheet for book and tax purposes. Under the newly enacted legislation, the tax rate on the post-2010 reversal of these temporary differences will be 31.5%. Temporary differences reversing prior to December 31, 2010 will not give rise to any future income taxes.

Based on its assets and liabilities as at June 30, 2007, the Partnership has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse. Currently, the Partnership has net deductible temporary differences of $3,347,000, which principally relate to remaining tax pools attributable to initial public offering underwriting costs that were originally netted with unitholders' capital for accounting purposes. The Partnership estimates that these net deductible temporary differences will reverse at a nil tax rate.

The Partnership estimates that $7,309,000 net taxable temporary differences will reverse after January 1, 2011, resulting in a $2,302,000 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.

As the legislation gives rise to a change in the Partnership's estimated future income tax liability in the period, the recognition of the liability is accounted for prospectively and $2,302,000 of future income tax expense has been recorded for the period. This charge is a non-cash item and does not impact the ability of the Partnership to carry on its business, generate its cash flows or pay distributions.

While the Partnership believes it will be subject to tax under the new legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. As the legislation is new, future administrative interpretations of the legislation could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings and asset acquisitions and dispositions.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended Jun 30, 2007	Three Months Ended Mar 31, 2007	Three Months Ended Dec 31, 2006
Financial Results			
($000's except per unit amounts)			
Revenue	**6,198**	19,518	16,633
Gross margin[2]	**1,444**	6,521	4,906
Net earnings (loss)	**(2,955)**	3,927	(31,263)
per unit – basic and diluted[3]	**(0.32)**	0.42	(3.33)
EBITDAC[2]	**(396)**	4,128	2,886
Funds flow from operations[2]	**(400)**	4,137	2,917
per unit – basic and diluted[3]	**(0.04)**	0.44	0.31
Partnership Units Outstanding[3]			
End of period	**9,380,946**	9,380,946	9,380,946
Weighted average – basic	**9,380,946**	9,380,946	9,380,946
Weighted average – diluted	**9,380,946**	9,380,946	9,380,946

	Three Months Ended Sep 30, 2006	Three Months Ended Jun 30, 2006	30-day Period Ended Mar 31, 2006[1]
Financial Results			
($000's except per unit amounts)			
Revenue	14,619	7,839	6,922
Gross margin[2]	4,194	2,315	1,769
Net earnings (loss)	2,500	675	1,279
per unit – basic and diluted[3]	0.27	0.08	0.14
EBITDAC[2]	2,596	737	1,302
Funds flow from operations[2]	2,635	778	1,311
per unit – basic and diluted[3]	0.29	0.09	0.15
Partnership Units Outstanding[3]			
End of period	9,380,946	9,005,946	8,905,946
Weighted average – basic	9,244,805	8,907,045	8,905,946
Weighted average – diluted	9,244,898	8,912,539	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 11). Between June 30, 2007 and August 8, 2007 there has been no change in the number of Partnership units outstanding.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, the Partnership had cash and cash equivalents of $2.9 million. Working capital was positive at $8.8 million.

Long-term liabilities at June 30, 2007 were $641,000 representing vehicle financing loans. Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet this long-term payment obligation.

During the second quarter of 2007, CES increased its revolving demand facility to borrow up to $5.0 million from $3.0 million. This facility is for general operating purposes and to manage cash flows during seasonal fluctuations. To date, no amounts have been drawn on this facility.

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 Jun 30, **2007**	2006	**Six Months Ended Jun 30, 2007**	121-day Period Ended Jun 30, 2006[3]
($000's)				
Cash flow from operating activities	**5,363**	3,942	**4,598**	7,223
Adjust for:				
Change in non-cash operating working capital	**(5,763)**	(3,164)	**(861)**	(5,134)
Funds flow from operations[1]	**(400)**	778	**3,737**	2,089
Less: Maintenance capital[2]	**127**	374	**216**	447
Distributable funds[1]	**(527)**	404	**3,521**	1,642
Distributions declared	**2,229**	2,124	**4,458**	2,829
Payout ratio[1]	**(423)%**	526%	**127%**	172%

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 funds were deficient by $527,000 for the three months ended June 30, 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 June 30, 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 second quarter of 2007 was a negative 423%. The actual payout ratio for the twelve month period ended June 30, 2007 was 104%. 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 July 6, 2007 the Ontario Securities Commissions Board (OSCB) released revised National Policy 41-201 - Income Trusts and Other Indirect Offerings. In July, the Canadian Institute of Chartered Accountants (CICA) released a companion document providing guidance on the definition, calculation and reporting of distributable cash. Both of these documents are designed to establish consistency in the definition, calculation and reporting of distributable cash. Management believes that CES' calculation of distributable funds complies with the requirements of the OSCB. The additional guidance provided by the CICA is currently being reviewed by CES.

Subsequent to the quarter end, CES declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on July 31, 2007.

Investing Activities

The Partnership incurred $1.2 million in capital expenditures during the second quarter of 2007 of which $1.1 million was for expansion capital and $127,000 was for maintenance capital. See "Operational Definitions" on page 5 for an explanation of expansion versus maintenance capital. The expansion capital primarily related to the purchase of 25 acres of land in Edson, Alberta to construct a trucking and tank farm facility ($805,000) and the purchase of mud vans ($166,000) to service both the Edson and the Moose Mountain Mud operations. Maintenance capital related to replacement vehicles ($117,000) and other equipment ($10,000).

The acquisition of the Edson, Alberta land closed at the end of June. The Partnership has since entered into a contract at a price of $1.0 million for the construction of two buildings in order to provide our services. CES anticipates that the total investment in land, buildings, tank farm, trucks and related equipment will be approximately $4.0 million. This facility will be operated under the Partnership's new division EQUAL Transport which was established in the second quarter of 2007. Operations are scheduled to commence in the third quarter with facility completion planned for the end of 2007.

Financing Activities

There were no significant financing activities in the second quarter of 2007 other than the increase in the credit facility (see page 9, Liquidity and Capital Resources).

Financing for the construction of the Edson, Alberta facility will be managed through cash flow and the operating line of credit. Upon completion, it is anticipated that term financing will be put in place.

Unitholders' Equity

No additional units were issued during the three month period ending June 30, 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 escrowed 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 June 30, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 198,095 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.

Commitments / Contractual Obligations

The Partnership has the following financial commitments with payments due for the years ending June 30 as follows:

($000's)	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Vehicle financing loans	$ 466	$ 422	$ 175	$ 28	$ 16	$ 1,107
Construction of buildings	1,039	-	-	-	-	1,039
Purchase of trucks and related equipment	1,014	-	-	-	-	1,014
Office rent	344	-	-	-	-	344
Operating leases	74	23	3	-	-	100
Total	$ 2,937	$ 445	$ 178	$ 28	$ 16	$ 3,604

The Partnership has entered into a contract for the construction of two buildings for a price of $1.0 million. Progress payments will be required and construction is expected to be completed in late 2007. In addition, the Partnership has agreed to purchase several trucks and related equipment for a total of $1.0 million. Payment is expected to be made over the next few months.

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 second 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 June 30, 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 require 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. For a more thorough discussion of such 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

For information regarding 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. In this regard, we note that for the three months ended June 30, 2007, 95% of the Partnership's revenue continued to come from medium to deep and horizontal well types, which compares against 97% last year. This highlights the robust economic nature of the projects pursued by our clients and the substantive role CES plays in their success. We continue to be encouraged by the level of horizontal drilling activity in the Bakken light oil resource play and horizontal drilling activity in the Canadian oilsands. These remain significant and growing markets where CES' technology will drive the growth of our business.

The Partnership will strive to continue to build market penetration for Seal-AX™ (Patent Pending) and additional activity with other leading technologies such as Liquidrill™. 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)

		Jun 30, 2007		Dec 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents (note 3)	**$**	**2,913**	$	4,194
Accounts receivable		**9,136**		23,733
Inventory		**3,199**		2,613
Prepaid expenses		**377**		180
		15,625		30,720
Property and equipment (note 4)		**3,300**		2,224
Goodwill (note 5)		**41,966**		41,966
	$	**60,891**	$	74,910
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**5,261**	$	17,832
Distributions payable		**1,084**		1,084
Deferred revenue		**45**		427
Current portion of vehicle financing loans (note 6)		**466**		457
		6,856		19,800
Vehicle financing loans (note 6)		**641**		616
Future income tax liability (note 7)		**2,302**		-
		2,943		616
Unitholders' equity				
Class A Units (note 8)		**66,959**		66,959
Subordinated Class B Units (note 8)		**21,514**		21,514
Contributed surplus		**189**		105
Deficit		**(37,570)**		(34,084)
		51,092		54,494
	$	**60,891**	$	74,910

Commitments (note 12)
Subsequent Event (note 15)

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 Jun 30, **2007**	2006	**Six Months Ended Jun 30, 2007**	121-dayPeriod Ended Jun 30, 2006[1]
Revenue	**$ 6,198**	$ 7,839	**$ 25,716**	$ 14,761
Cost of sales	**4,754**	5,524	**17,751**	10,677
Gross margin	**1,444**	2,315	**7,965**	4,084
Expenses				
Selling, general and administrative expenses	**1,840**	1,578	**4,233**	2,045
Amortization of property and equipment	**185**	74	**354**	97
Unit-based compensation (note 9)	**43**	29	**84**	38
Loss on disposal of assets (note 4)	**25**	-	**25**	-
Interest income, net of interest expense	**4**	(41)	**(5)**	(50)
	2,097	1,640	**4,691**	2,130
Net earnings (loss) for the period before taxes	**(653)**	675	**3,274**	1,954
Future income tax expense (note 7)	**2,302**	-	**2,302**	-
Net earnings (loss) for the period	**(2,955)**	675	**972**	1,954
Other comprehensive income	**-**	-	**-**	-
Comprehensive net earnings (loss) for the period	**(2,955)**	675	**972**	1,954
Retained earnings (deficit), beginning of period	**(32,386)**	574	**(34,084)**	-
Unitholders' distributions declared (note 11)	**(2,229)**	(2,124)	**(4,458)**	(2,829)
Deficit, end of period	**$ (37,570)**	$ (875)	**$ (37,570)**	$ (875)
Net earnings (loss) per unit (note 10)				
Basic and diluted	**$ (0.32)**	$ 0.08	**$ 0.10**	$ 0.22

[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 Jun 30, **2007**	Three Months Ended Jun 30, 2006	**Six Months Ended Jun 30, 2007**	121-day Period Ended Jun 30, 2006[1]
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net earnings (loss) for the period	**$ (2,955)**	$ 675	**$ 972**	$ 1,954
Items not involving cash:				
Amortization of property and equipment	**185**	74	**354**	97
Unit-based compensation	**43**	29	**84**	38
Loss on disposal of assets	**25**	-	**25**	-
Future income tax expense	**2,302**	-	**2,302**	-
Change in non-cash operating working capital (note 14)	**5,763**	3,164	**861**	5,134
	5,363	3,942	**4,598**	7,223
FINANCING ACTIVITIES:				
Units issued for cash, net of issue costs	**-**	-	**-**	53,603
Repayment of vehicle financing loans	**(190)**	(50)	**(308)**	(66)
Change in non-cash financing working capital	**-**	(812)	**-**	-
Distributions to unitholders	**(2,229)**	(1,775)	**(4,458)**	(1,775)
	(2,419)	(2,637)	**(4,766)**	51,762
INVESTING ACTIVITIES:				
Repayment of acquisition notes	**-**	-	**-**	(50,602)
Purchase of property and equipment	**(1,102)**	(102)	**(1,190)**	(435)
Proceeds on disposal of fixed assets	**77**	-	**77**	-
	(1,025)	(102)	**(1,113)**	(51,037)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,919**	1,203	**(1,281)**	7,948
Cash and cash equivalents, beginning of period	**994**	6,745	**4,194**	-
Cash and cash equivalents, end of period (note 3)	**$ 2,913**	$ 7,948	**$ 2,913**	$ 7,948

SUPPLEMENTARY CASH FLOW DISCLOSURE

Interest paid	**$ 2**	$ -	**$ 5**	$ -
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, as 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 ("IPO") 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 IPO.

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 financial statements for the period ended December 31, 2006, except for as noted below. These interim 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 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 June 30, 2007, the Partnership has not adopted CICA Section 1535 – Capital Disclosures and Section 3862 – Financial Instruments – Disclosures. These sections are to be applied for periods beginning on or after October 1, 2007. These standards require 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:

	Jun 30, 2007	Dec 31, 2006
Cash	$ 213	$ 194
Temporary investments	2,700	4,000
	$ 2,913	$ 4,194

4. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value Jun 30, 2007	Net Book Value Dec 31, 2006
Computer equipment and software	$ 370	$ 110	$ 260	$ 304
Vehicles	1,544	361	1,183	1,165
Trucks	217	13	204	118
Field equipment	559	77	482	248
Furniture and fixtures	125	29	96	108
Buildings	259	32	227	237
Tanks	35	1	34	35
Land	814	-	814	9
	$ 3,923	$ 623	$ 3,300	$ 2,224

During the quarter ended June 30, 2007 the Partnership disposed of four field vehicles with a total cost of $173,000 and a total net book value of $102,000. Proceeds realized on disposition were $77,000 resulting in a loss on disposal of $25,000 being recorded in the quarter.

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

On May 29, 2007 the Partnership amended its revolving demand facility with a commercial bank to increase the amount that the Partnership is permitted to borrow from $3 million to $5 million. Any amounts drawn on this facility will incur interest 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 $800 - $2,000, maturing from October 2007 to March 2012.

	Jun 30, 2007	Dec 31, 2006
Vehicle financing loans	$ 1,107	$ 1,073
Less current portion	466	457
	$ 641	$ 616

Principal payments are as follows for the years ending June 30:

2008	$ 466
2009	422
2010	175
2011	28
2012	16

7. Future income taxes

On June 22, 2007 the Government of Canada enacted new legislation imposing additional income taxes upon flow-through entities including public partnerships such as Canadian Energy Services L.P., effective January 1, 2011. Prior to June 2007, the income of the Partnership was not subject to tax and therefore no future income taxes were recognized on temporary differences between amounts recorded on its balance sheet for book and tax purposes. Under the newly enacted legislation, the tax rate on the post-2010 reversal of these temporary differences will be 31.5%. Temporary differences reversing prior to December 31, 2010 will not give rise to any future income taxes.

Based on its assets and liabilities as at June 30, 2007, the Partnership has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse. Currently, the Partnership has net deductible temporary differences of $3,347,000, which principally relate to remaining tax pools attributable to IPO underwriting costs that were originally netted with unitholders' capital for accounting purposes. The Partnership estimates that these net deductible temporary differences will reverse at a nil tax rate.

The Partnership estimates that $7,309,000 of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2,302,000 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.

As the legislation gives rise to a change in the Partnership's estimated future income tax liability in the period, the recognition of the liability is accounted for prospectively and $2,302,000 of future income tax expense has been recorded for the period.

While the Partnership believes it will be subject to tax under the new legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. As the legislation is new, future administrative interpretations of the legislation could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings and asset acquisitions and dispositions.

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

8. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units. At June 30, 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 six month period ended June 30, 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 escrowed units are to be released on March 2, 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 June 30, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 198,095 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.

The following table summarizes information about the Unit Option Plan for the six months ended June 30, 2007.

	Options	Average Exercise Price
Outstanding, beginning of period	669,500	$ 9.16
Granted during period	75,000	6.07
Cancelled during period	(4,500)	7.79
Outstanding, end of period, June 30, 2007	740,000	$ 8.85
Exercisable, end of period, June 30, 2007	190,000	$ 9.38

There were no options granted during the three months ended June 30, 2007. The fair value of options granted during the three month period ended June 30, 2006 was $20,000. During the three months ended June 30, 2007, compensation costs of $43,000 were recorded in the statement of operations (three months ended June 30, 2006 - $29,000). The fair value of the options granted during the six months ended June 30, 2007 was $64,000 (121-day period ended June 30, 2006 - $351,000). During the same period, compensation costs of $84,000 (121-day period ended June 30, 2006 - $38,000) 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.

10. Earnings (Loss) Per Unit

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

	Three Months Ended Jun 30, 2007	Three Months Ended Jun 30, 2006	Six Months Ended Jun 30, 2007	121-day Period Ended Jun 30, 2006[1]
Earnings (loss)	$ (2,955)	$ 675	$ 972	$ 1,954
Weighted average number of units outstanding:				
Basic	9,380,946	8,907,045	9,380,946	8,906,779
Effect of convertible promissory notes	-	5,494	-	4,167
Effect of unit options	-	-	5,038	82
Diluted	9,380,946	8,912,539	9,385,984	8,911,028
Earnings (loss) per unit:				
Basic and diluted	$ (0.32)	$ 0.08	$ 0.10	$ 0.22

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

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

11. 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 six month period ended June 30, 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
Apr 1 - 30	Apr 30	May 15	0.0792	-	573
May 1 - 31	May 31	Jun 15	0.0792	-	573
Jun 1 - 30	Jun 30	Jul 13	0.0792	-	573
Apr 1 - Jun 30	Jun 30	Jul 13	-	0.2376	510
Total distributions during the period					4,458
Accumulated distributions, beginning of period					7,275
Accumulated distributions, end of period					$ 11,733

12. Commitments

(a) The Partnership has entered into a contract for the construction of two buildings for a price of $1,039,000. Progress payments will be required and construction is expected to be completed in late 2007.

(b) The Partnership has agreed to purchase several trucks and related equipment for a total of $1,014,000. Payment is expected to be made over the next few months.

(c) The Partnership has an agreement regarding a sublease for office space until February, 2008 and will pay approximately $344,000 of rent and operating costs to that date.

(d) The Partnership has operating vehicle leases and the lease payments due for the years ending June 30 are as follows:

2008	$ 74
2009	23
2010	3

13. Payments to the General Partner

The General Partner will be allocated 0.01% of the income of the Partnership for each fiscal year and 99.99% of the 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

14. Supplemental Information

Components of change in non-cash working capital balances:	Three Months Ended Jun 30, 2007	2006	Six Months Ended Jun 30, 2007	121-day Period Ended Jun 30, 2006[1]
Operating:				
Accounts receivable	$ 13,067	$ 11,543	$ 14,597	$ 12,052
Inventory	185	334	(586)	(271)
Due from vendors	-	266	-	-
Prepaid expenses	(46)	127	(197)	(204)
Accounts payable and accrued liabilities	(7,488)	(9,106)	(12,571)	(6,443)
Deferred revenue	45	-	(382)	-
	5,763	3,164	861	5,134
Financing:				
Accounts payable and accrued liabilities	-	(812)	-	-
	$ 5,763	$ 2,352	$ 861	$ 5,134

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

15. Subsequent Event

On July 20, 2007, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on July 31, 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

[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
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

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: CEU.UN

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