Canadian Energy
SERVICES L.P.

2nd Interim Report 2006
for period ending June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CANADIAN ENERGY SERVICES L.P.

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the unaudited financial statements and notes thereto of Canadian Energy Services L.P. ("CES" or the "Partnership") as at and for the period ended June 30, 2006 included elsewhere in this interim report. The information contained in this management's discussion and analysis was prepared on August 4, 2006 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 this MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. Although the forward-looking information contained in this MD&A is based upon what management of the Partnership believes are reasonable assumptions, the Partnership cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this MD&A, and, subject to applicable securities laws, the Partnership assumes no obligation to update or revise such information to reflect new events, or circumstances.

In particular, this MD&A contains forward-looking information pertaining to the following: capital expenditure programs, supply and demand for drilling fluid systems and industry activity levels; commodity prices; treatment under governmental regulatory 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 and the United States; demand for oilfield services during drilling and completion of oil and natural gas wells; volatility in market prices for oil and natural gas 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 competition; 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 implementing the Kyoto Protocol; and the other factors considered under "Risk Factors" in the Partnership's final prospectus dated February 21, 2006 and "Risks and Uncertainties" in this MD&A.

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

Financial Highlights

Financial Results	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006[1]
($000's except per unit amounts)		
Revenue	7,839	14,761
Gross margin[2]	2,315	4,084
Net earnings	675	1,954
per unit – basic[4]	0.08	0.22
per unit – diluted[4]	0.08	0.22
EBITDAC[2]	737	2,039
Cash flow from operations[2]	778	2,089
per unit – basic[4]	0.09	0.23
per unit – diluted[4]	0.09	0.23
Distributions declared		
per Class A Unit	0.2376	0.3168
per Subordinated Class B Unit	0.2376	0.3168

Financial Position	June 30, 2006
($000's)	
Working capital	11,931
Total assets	101,477
Long term financial liabilities[3]	5,296
Unitholders' equity	83,886

Partnership Units Outstanding [4]	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006[1]
End of period	9,005,946	9,005,946
Weighted average – basic	8,907,045	8,906,779
Weighted average – diluted	8,912,539	8,911,028

Notes:

1 From commencement of operations on March 2, 2006.

2 Refer to the "Non-GAAP Measures" on page 5 for further detail.

3 Vehicle financing loans, excluding current portion and including due to Vendors.

4 Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 11).

Overview of Financial and Operational Results

Highlights of the three months ended June 30, 2006 for CES were:

- Revenue of $7.8 million was stronger than expected for the traditional "spring break-up" period. Rig count, which averaged 332[1] in the period, remained active providing for continued operations throughout the period.
- Gross margin of $2.3 million or 30% of revenue was generated for the period despite the impact of fixed field costs which support infrastructure sustained by CES to service higher non-break-up periods of activity.
- Selling, general and administrative ("SG&A") costs include higher than expected public entity costs and a number of one time costs including relocation into a common office facility and the recruitment of personnel. SG&A also included the costs incurred for the safety audit for our Certificate of Recognition which was successfully completed.
- Net earnings of $675,000 at 9% of revenue was achieved following strong field margins.
- Seal-AX, a new proprietary technology with Patent-Pending status, was introduced to the market on two deep Foothills wells. This technology uniquely enhances the performance of the Partnership's Invert drilling fluid systems by reducing "seepage" losses of base oil to the drilled formations.
- The Partnership continued with its distribution policy and declared monthly distributions of $0.0792 per unit to Class A unitholders. A quarterly distribution of $0.2376 was declared to the Subordinated Class B unitholders of record on June 30, 2006. The target payout ratio on an annualized basis is 80% of distributable cash. The actual payout ratio for the three months ended June 30, 2006 was 526% due to the lower level of activity that occurs in the second quarter. The actual payout ratio for the 121-day period ended June 30, 2006 was 172%. The target payout ratio level is the anticipated level for the twelve month calendar period. The actual payout ratio will vary 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.
- CES issued $6.0 million aggregate amount of unsecured promissory notes convertible into 600,000 Class A Units to Impact Fluid Systems Inc. and Canadian Fluid Systems Ltd. in accordance with the working capital adjustment provisions of the acquisition agreements entered into in connection with the Partnership's initial public offering ("IPO"). In June 2006, $1.0 million aggregate principal amount of such notes was converted to Class A Units at a conversion price of $10.00.00 per unit and in July 2006 a further $3.0 million aggregate principal amount of such notes was converted to Class A Units at a conversion price of $10.00.00 per unit.

Note:

[1] From Canadian Association of Oilfield Drilling Contractors ("CAODC") active rig count for Western Canada.

Overview of the Partnership Formation

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

The General Partner was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is responsible for the administration and management of the Partnership and carries out the objects, purposes and business of the Partnership. The General Partner had not carried on any business prior to the date the Partnership commenced operations other than in connection with the IPO and the acquisition of the drilling fluids businesses and does not hold any material assets other than legal title to certain assets for the sole benefit of the Partnership. The General Partner owns a 0.01% general partnership interest in the Partnership.

The Partnership commenced business operations on March 2, 2006 following the acquisition of the businesses of two private drilling fluid service companies. See "Investing Activities – Business Acquisitions" on page 9. Immediately thereafter, the Partnership completed its IPO for net proceeds of $55.4 million. See "Financing Activities" on page 11. 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").

121-day Reporting Period and Comparative Information

The following financial information for CES is for the 121-day period from the commencement of operations on March 2, 2006 to the period ended, June 30, 2006. Readers should note the 121-day period does not represent two complete quarters of operations.

No comparative information or analysis is provided as financial results for the prior period are not available and would not be considered directly comparable due to the complexity of harmonizing the accounting periods and policies for the past financial information of the acquired businesses.

Non-GAAP Measures

The 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 and will be calculated on a consistent basis. These measures include:

Cash flow or cash flow from operations – means cash flow from operations before changes in non-cash working capital.
Distributable cash – means cash flow from operations less maintenance capital.
EBITDAC – means earnings before interest, taxes, amortization and unit-based compensation expense.
Gross margin – means revenue less cost of sales, which represent cost of product and field operating costs.
Payout ratio – means distributions declared as a percentage of distributable cash.

These measures are identified and presented, where appropriate, together with reconciliations to the equivalent GAAP measure. However, they should not be used as an alternative to GAAP measures, because they may not be consistent with calculations of other companies, trusts or partnerships.

Results for the Interim Periods

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
($000's, except per unit amounts)		
Revenue	7,839	14,761
Cost of sales	5,524	10,677
Gross margin	2,315	4,084
% of revenue	30%	28%
Selling, general and administrative expenses	1,578	2,045
Amortization of property and equipment	74	97
Partnership unit-based compensation	29	38
Other income	(41)	(50)
Net earnings	675	1,954
per unit – basic	0.08	0.22
per unit – diluted	0.08	0.22

Revenue and Operating Activities

Revenue for the three month period ended June 30, 2006 was $7.8 million with higher than expected level of drilling activity throughout the quarter. Although the rig count in Western Canada did drop off significantly from 705 active rigs in March (based on CAODC published active rig counts for Western Canada) to 267 in April, there continued to be a strong level of activity for CES in April and May before the June average rig count went back up to 455 rigs.

CES estimated that it held a 12% market share during this period. CES determined 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.

The Partnership also tracked operating days. Operating days represents those days that CES was generating revenue (i.e. actual drilling days).

The Partnership estimated operating days as follows:

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
Operating Days	2,639	4,469

CES continued to focus on the medium to deep and horizontal wells which represented approximately 97% of revenue for the three month period ended June 30, 2006.

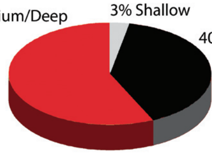
The Partnership classifies oil and natural gas wells by depth, as follows:

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 with often multiple lateral legs reaching out 500 to 1,500 metres each.

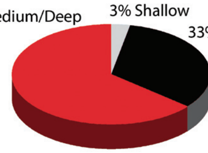
CES's experience has been that drilling fluid systems profitability increases significantly with the depth and complexity of the well drilled.

The following charts illustrate the Partnership's estimated revenue by well type. They demonstrate that activity continued in CES's targeted areas.

Three Months Ended June 30, 2006



121-day Period Ended June 30, 2006



Cost of Sales and Gross Margin

Gross margin of $2.3 million, or 30% of revenue, was generated for the three months ended June 30, 2006. Gross margin represents the profit earned on revenue after deducting the cost of materials, field labour and all related field costs. Margins were improved from the first interim period largely due to a change in product mix.

Costs to maintain field operations in the second quarter were high on a percentage of revenue bases as infrastructure was not at its full capacity throughout the period. The Partnership managed these costs during the "spring break-up" period by the use of consultants during the periods of high activity and balancing the mix between employees and consultants throughout the year. During this slow period, employees have been provided training and vehicles have been maintained or upgraded in anticipation of the upcoming higher activity levels. These fixed costs that continued to be incurred in this period of lower activity have reduced margins as a percentage of revenue.

Input costs for Invert drilling fluid systems were lowered as the Partnership purchased additives/chemicals directly from manufacturers rather than through wholesalers. This lowers the cost of goods and improves gross margins as these additives are deployed to the customers rig location.

Key input costs for CES's business include hydrocarbon base oil and labour costs. Labour costs are rising throughout the entire industry. The cost of base oil is passed through to the customer on a monthly price schedule. CES is working with its customers to recover labour cost increases through increases in the day rates for field engineering services.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") costs for the three months ended June 30, 2006 were $1.6 million. This includes public entity costs which were slightly higher than anticipated. Costs also include a number of one time costs relating to the office relocation, recruiting of personnel and listing fees for the convertible promissory notes.

CES is investing in a higher level of infrastructure as a result of both growth and heightened reporting requirements as part of being a public entity. SG&A for the 121-day period was 14% of revenue. On an annualized basis, the Partnership feels a target of SG&A at 10% of revenue is achievable.

The Partnership has selected a new business information system that will harmonize the financial accounting and reporting systems inherited from the acquired businesses.

Other Expense (Income) Items

Amortization was $74,000 for the second interim period, largely related to the vehicles which are amortized on a straight-line basis over 3 years.

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

Other income represents interest income earned on short term investments.

Quarterly Financial Summary

	30-day Period Ended March 31, 2006[1]	Three Months Ended June 30, 2006
Financial Results		
($000's except per unit amounts)		
Revenue	6,922	7,839
Gross margin[2]	1,769	2,315
Net earnings	1,279	675
per unit – basic[3]	0.14	0.08
per unit – diluted[3]	0.14	0.08
EBITDAC[2]	1,302	737
Cash flow from operations[2]	1,311	778
per unit – basic[3]	0.15	0.09
per unit – diluted[3]	0.15	0.09
Partnership Units Outstanding[3]		
End of period	8,905,946	9,005,946
Weighted average – basic	8,905,946	8,907,045
Weighted average – diluted	8,905,946	8,912,539

Notes:
[1] From commencement of operations on March 2, 2006.
[2] Refer to the "Non-GAAP Measures" on page 5 for further detail.
[3] Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 11).

Liquidity and Capital Resources

At June 30, 2006, the Partnership had cash and cash equivalents of $7.9 million. Working capital was positive at $11.9 million.

Included in long-term liabilities at June 30, 2006 was an amount of $5.0 million owing to the Vendors on the purchase of the drilling fluids businesses, of which $2.0 million currently remains payable. See "Investing Activities – Business Acquisitions" on page 9 and "Transactions with Related Parties" on page 12. Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet this long-term payment obligation.

In June 2006, CES entered into a revolving demand facility to borrow up to $3.0 million for general operating purposes.

Financial instruments of CES include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. As at June 30, 2006 there were no significant differences between the carrying value of these amounts and their estimated fair market value.

Cash Flow from Operating Activities and Distributions

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
($000's)		
Cash flow from operations, before changes in non-cash working capital items	778	2,089
Maintenance capital	374	447
Distributable cash [1]	404	1,642
Distributions declared	2,124	2,829
Payout ratio	526%	172%

Note:
[1] Refer to the "Non-GAAP Measures" on page 5 for further detail.

Distributable cash was $404,000 for the three months ended June 30, 2006. The Partnership declared monthly distributions of $0.0792 per Class A Common limited partnership unit ("Class A Unit") during the period and the quarterly distribution of $0.2376 per Class B subordinated limited partnership unit ("Subordinated Class B Unit") to unitholders of record on June 30, 2006. 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.

Subsequent to the quarter end, CES declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on July 31, 2006.

Investing Activities

Capital Expenditures
The Partnership incurred $374,000 in capital expenditures for the three months ended June 30, 2006. The majority of the capital expenditure was for vehicles, computer equipment and office furniture. Replacement of field vehicles traditionally is done during the second quarter in anticipation of the higher activity level in the winter months.

Business Acquisitions
On March 2, 2006, the Partnership completed the acquisition of the drilling fluid businesses from Impact Fluid Systems Inc. ("Impact") and Canadian Fluid Systems Ltd. ("CFS") (collectively the "Vendors") for an aggregate purchase price of $80.7 million, plus an aggregate working capital adjustment of $6.0 million.

The working capital adjustment was calculated based on a minimum working capital amount from each of Impact and CFS. Working capital in excess of this amount was added to the purchase price of the respective businesses. The working capital adjustment was determined by CES within a 120-day period from the acquisition date. At the time of closing of the acquisition, the minimum working capital amount was estimated to be $700,000 for each of Impact and CFS, for a total of $1.4 million. As a result of the increase in activity and the need to maintain a higher level of working capital in the Partnership, on May 10, 2006, the Vendors and the Partnership agreed to amend the drilling fluid business acquisition agreements to provide for a maximum working capital adjustment of $6.0 million rather than an $8.8 million working capital adjustment that would have been otherwise payable under the acquisition agreements due to the strong performance of the businesses prior to closing.

The total purchase price of $86.7 million was funded by the payment of $50.6 million in acquisition notes, $6.0 million payable to the Vendors, the issuance of 860,594 Class A Units and the issuance of 2,151,486 Subordinated Class B Units at the IPO price of $10.00 per unit.

The acquisition of the drilling fluid businesses by the Partnership has been accounted for using the purchase method.

	Impact	CFS	Total
Net assets acquired	$000's	$000's	$000's
Current assets	17,161	10,694	27,855
Property and equipment	659	16	675
Goodwill	37,621	38,345	75,966
Current liabilities	(11,860)	(5,694)	(17,554)
Long-term debt	(220)	-	(220)
	43,361	43,361	86,722

Consideration	$000's	$000's	$000's
Acquisition notes	25,301	25,301	50,602
Due to Vendors	3,000	3,000	6,000
Class A Units	4,303	4,303	8,606
Subordinated Class B Units	10,757	10,757	21,514
	43,361	43,361	86,722

The acquisition notes were repaid with proceeds from the IPO. See "Financing Activities" on page 11.

The payable to the Vendors of $6.0 million are unsecured promissory note to each Vendor in the amount of $3.0 million. Each note is for a term of 2 years from the March 2, 2006 closing of the acquisitions, and is non-interest bearing for the first year of the term but shall bear interest at the Royal Bank of Canada prime rate on the second year of the term.

On May 10, 2006 the Partnership agreed to grant an option in favour of the Vendors to convert the promissory notes arising from the working capital adjustment to Class A Units at $10.00 per unit for a period of up to six months from March 2, 2006, the effective date of the acquisitions. On June 29, 2006 $1.0 million aggregate amount of the promissory note held by Impact was assigned to a shareholder of Impact and was converted into 100,000 Class A Units at $10.00.00 per unit and on July 19, 2006 an additional $3.0 million aggregate amount of the promissory note held by CFS was converted into 300,000 Class A Units at $10.00.00 per unit.

The above business acquisitions were transacted with certain individuals or entities controlled by them, who as a result of the acquisitions are significant unitholders of the Partnership. These individuals or persons related to them have continued in key management roles with the General Partner. These individuals include Rodney L. Carpenter and Thomas J. Simons who are officers, directors, and significant direct or indirect shareholders of CFS and Impact, respectively, as well as directors of the General Partner.

Financing Activities

On March 2, 2006, the Partnership completed the IPO of 5,893,866 Class A Units at a price of $10.00 per unit for aggregate gross proceeds of $58.9 million before deducting $3.5 million in underwriting commissions and approximately $1.8 million in other costs relating to the IPO. Of the net proceeds, $50.6 million was used to repay the acquisition notes issued to each of CFS and Impact in connection with the business acquisitions described under "Investing Activities – Business Acquisitions" on page 9 and the remaining $3.0 million was retained in the Partnership to fund growth opportunities including the purchase of the Carlyle warehouse facility. See "Transactions with Related Parties" on page 12.

Unitholders' Equity

On March 2, 2006, the Partnership closed an IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit, for aggregate gross proceeds of $58.9 million or net proceeds of approximately $53.6 million after offering expenses and underwriters' commission of $5.3 million.

In connection with the acquisition of the drilling fluid businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. The Subordinated Class B Units issued to CFS and Impact in connection to the acquisitions are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and certain other limited circumstances. Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units.

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units.

	Number of units	Amount ($000's)
Class A Units issued pursuant to the IPO	5,893,866	$ 58,939
Class A Units issued as consideration for acquired businesses	860,594	8,606
Subordinated Class B Units issued as consideration for acquired businesses	2,151,486	21,514
Unit issue expenses		(5,336)
Partnership units at March 31, 2006	8,905,946	$ 83,723
Class A Units issued on conversion of promissory notes	100,000	1,000
Partnership units at June 30, 2006	9,005,946	$ 84,723

At the end of the period, $5.0 million aggregate amount of promissory notes convertible into 500,000 Class A Units were still outstanding. Subsequent to the period end, $3.0 million aggregate amount of promissory notes were converted to Class A Units at a conversion price of $10.00.00 per unit. Assuming the remaining $2.0 million were also converted at $10.00.00 per unit, the total Partnership units outstanding would be 9,505,946 with an amount of $89,723,000.

Unit Option Plan

The Partnership may provide additional compensation to the General Partner's employees, officers, directors and certain other service providers by issuing options to acquire Class A Units under the Partnerships' Unit Option Plan (the "Unit Option Plan"). As at June 30, 2006, 900,595 Class A Units were reserved for issuance under the Unit Option Plan, of which 301,095 Class A Units remain available for option grants. The 599,500 outstanding options 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.

Off-Balance Sheet Arrangements

The Partnership does not have off-balance sheet arrangements.

Transactions with Related Parties

The amount due to the Vendors of $5.0 million represents the amount owing to companies controlled by certain directors, officers and unitholders of the Partnership as the balance owing for the purchase of the assets of CFS and Impact. The amount was determined based on a working capital adjustment pursuant to the respective drilling fluid business acquisition agreements, as amended. This amount is represented by an unsecured promissory note in favor of each CFS and Impact that are for a two year term from March 2, 2006 the closing date of the acquisitions, are non-interest bearing for the first year of the term but shall bear interest at the Royal Bank of Canada prime rate on the second year of the term. The promissory notes will be convertible into Class A Units for a period of six months beginning on March 2, 2006. See "Investing Activities – Business Acquisitions" on page 9.

On March 2, 2006, the Partnership acquired certain land, building and related equipment (the "Carlyle facility") from persons who are non-arms length with CES. The Carlyle facility was acquired from a corporation that was owned by Rodney L. Carpenter, Kenneth D. Zandee and a third party. Mr. Carpenter is an officer and director of CES and a significant shareholder of CFS as well as a director of the General Partner. Mr. Zandee is an officer of CES and a significant shareholder of CFS. The Carlyle facility was acquired for $260,000 which represented fair market value.

Critical Accounting Policies and Estimates

CES prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). There were no new accounting policies announced during the period presented which would be expected to materially impact on the Partnership.

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

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimate in CES's financial statements is the amortization period for property and equipment.

Initial Adoption of Accounting Policies

The Partnership has adopted the following significant accounting policies:

(a) Cash and cash equivalents:

The Partnership considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less from the acquisition date as cash and cash equivalents.

(b) Inventory:

Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized using the straight-line method over their estimated useful lives at the following rates:

Computer equipment and software	3 years	straight-line method
Vehicles	3 years	straight-line method
Field equipment	5 years	straight-line method
Furniture and fixtures	5 years	straight-line method
Buildings	10 years	straight-line method

The Partnership regularly reviews its property and equipment to account for impairment.

(d) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

(e) Revenue recognition:

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. Revenue from field service charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue will only be recognized when collection is reasonably assured.

(f) Unit-based compensation:

The Partnership uses the fair value method to account for options granted to employees and directors. Under the fair value method, the fair value of the options is estimated at the grant date using the Black-Scholes option pricing method, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus. The amount of compensation expense and contributed surplus is reduced for options that are cancelled prior to vesting. Any consideration received upon the exercise of the unit based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in unitholders' capital.

(g) Earnings per unit:

Basic earnings per unit are computed by dividing net earnings by the weighted average number of units outstanding during the year. The Partnership uses the treasury stock method for calculating diluted earnings per unit. Diluted earnings per unit are computed similar to basic earnings per unit except that the weighted average units outstanding are increased to include additional units from the assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises were used to acquire units of common stock at the average market price during the year. Diluted earnings per unit are also adjusted to include the additional Class A Units that would result if the convertible promissory notes outstanding at June 30, 2006 were fully converted at $10.00.00 per unit.

Management of the Partnership is not aware of any recent accounting pronouncements or developments that will effect the Partnership's financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the Partnership's financial statements as they become available.

Financial Instruments

The net carrying value of accounts receivable approximates fair value due to the short-term nature of these instruments. The Partnership has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The carrying value of accounts payable and accrued liabilities and distributions payable approximates the fair value of these financial instruments due to their short-term nature.

The Partnership is exposed to minimal interest rate risk due to limited long-term liabilities outstanding.

Risk and Uncertainties

The drilling industry is cyclical and the business of CES is directly affected by fluctuations in the level of oil and natural gas exploration and development activity carried on by its clients. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, oil and natural gas prices, access to capital markets and government policies including environmental regulations. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in Canada.

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, which would enhance CES's revenue generation. Mitigation of weather risk is difficult and costly as effective derivative products do not yet exist to successfully manage this risk.

The ability of the Partnership to expand its services will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees and drilling fluid technicians is high, and the supply is limited. The unexpected loss of the Partnership's key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on the Partnership's results. CES addresses this risk by:

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

CES takes its environmental responsibilities seriously and has instituted standards, policies and

procedures to address this risk area. In addition, the Partnership maintains insurance policies with respect to its operations providing coverage of all material insurable risks.
A concentration of credit risk exists in CES's trade accounts receivable since they are exclusively from companies in the western Canadian oil and gas industry. Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy and other geopolitical factors may adversely affect CES's ability to realize the full value of its accounts receivable. It is not possible to predict the likelihood or magnitude of this risk. CES attempts to mitigate this risk by performing credit checks on key customers, managing the amount and timing of exposure to individual customers and by review of its credit policies on a regular basis. There were no bad debts in the three month period ended June 30, 2006.

Reference should be made to the final prospectus of the Partnership dated February 21, 2006 in respect of the Partnership's IPO, and in particular to the heading "Risk Factors" for further risks associated with the business, operations and structure of the Partnership.

Outlook

The industry outlook remains strong for drilling activity and related services. CES believes that it is well positioned for profitable growth in this environment with emphasis on the following areas:

- Operators are directing resources to deeper/longer life gas reserves/production and to light and heavy oil reserves/production.
- Conventional horizontal drilling for oil is very active, driven by high commodity prices. CES's Liquidrill technology remains a leading drilling fluid in the industry.
- Although natural gas prices have declined from their highs, CES does not anticipate any slowdown in activity levels nor contraction of gross margins through the balance of 2006. The Partnership's diverse client base and strong value adding products enables CES to sustain activity levels despite reductions in the capital programs of some clients. CES anticipates its client mix will change as operators with more counter cyclical strategies expand their capital spending to take advantage of increased rig and oilfield service availability.
- Operators continue to drill for deeper, long life gas. The Partnership's Envirobond and CES Invert product lines continue to be leading technologies in this market. The commercial introduction of Seal-AX has been met with an encouraging response. The unique improvement to CES Invert through this Patent-Pending technology positions the Partnership with a value added proposition for it's customers in this attractive market.
- Oilsands drilling activity is increasing as drilling contractors build out new rigs that have been specially built for steam assisted gravity drainage ("SAGD") type drilling and the commercial phases of these projects will provide significant opportunities.
- Technology is constantly morphing and expanding when it comes to recovering maximum production from the Bitumen deposits of N.E. Alberta and N.W. Saskatchewan. SAGD is the primary recovery method. CES is well positioned to maintain / increase its market share in the bitumen production segment with its Liquidrill/Tarbreak system regardless of the recovery method utilized. The problems encountered while drilling in these areas are the same regardless of the post drilling recovery method used and Liquidrill/Tarbreak will continue to offer value to operators in this area.

BALANCE SHEET

as at June 30, 2006 (stated in thousands of dollars) (unaudited)

		2006
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	$	7,948
Accounts receivable		14,741
Inventory		1,310
Prepaid expenses		227
		24,226
Property and equipment (note 6)		1,285
Goodwill (note 4)		75,966
	$	101,477
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$	10,927
Distributions payable		1,054
Current portion of vehicle financing loans (note 7)		314
		12,295
Vehicle financing loans (note 7)		296
Due to Vendors (notes 4 and 14)		5,000
		17,591
Unitholders' equity		
Class A Units (note 8)		63,209
Subordinated Class B Units (note 8)		21,514
Contributed surplus		38
Deficit		(875)
		83,886
	$	101,477

Commitments (note 12)

Subsequent Events (note 16)

APPROVED ON BEHALF OF THE BOARD:

Tom Sim

Thomas J. Simons
President & Chief Executive Officer and Director

DMG Stewart.

D. Michael G. Stewart
Director & Chairman, Audit Committee

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

STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

From commencement of operations on March 2, 2006 to June 30, 2006
(stated in thousands of dollars except per unit amounts) (unaudited)

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
Revenue	$ 7,839	$ 14,761
Cost of sales	5,524	10,677
Gross margin	2,315	4,084
Expenses		
Selling, general and administrative expenses	1,578	2,045
Amortization of property and equipment	74	97
Partnership unit-based compensation (note 9)	29	38
	1,681	2,180
Other income	41	50
Net earnings for the period	675	1,954
Retained earnings, beginning of period	574	-
Unitholders' distributions declared (note 11)	2,124	2,829
Deficit, end of period	**$ (875)**	**$ (875)**
Net earnings per Partnership unit (note 10)		
Basic	$ 0.08	$ 0.22
Diluted	$ 0.08	$ 0.22

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

STATEMENT OF CASH FLOW

From commencement of operations on March 2, 2006 to June 30, 2006
(stated in thousands of dollars) (unaudited)

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net earnings for the period	$ 675	$ 1,954
Items not involving cash:		
Amortization of property and equipment	74	97
Partnership unit-based compensation	29	38
Change in non-cash operating working capital (note 15)	3,164	5,134
	3,942	7,223
FINANCING ACTIVITIES:		
Units issued for cash, net of issue costs	-	53,603
Increase in new vehicle financing	272	272
Repayment of vehicle financing loans	(50)	(66)
Change in non-cash financing working capital (note 15)	(812)	-
Distributions to unitholders	(1,775)	(1,775)
	(2,365)	52,034
INVESTING ACTIVITIES:		
Repayment of acquisition notes (note 4)	-	(50,602)
Purchase of property and equipment	(374)	(707)
	(374)	(51,309)
INCREASE IN CASH AND CASH EQUIVALENTS	1,203	7,948
Cash and cash equivalents — Beginning of period	6,745	-
Cash and cash equivalents — End of period (note 5)	$ 7,948	$ 7,948
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

Canadian Energy Services L.P.

(unaudited)

From commencement of operations on March 2, 2006 to June 30, 2006

1. The Limited Partnership

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

On March 2, 2006, the Partnership commenced business operations when it acquired the businesses of two private drilling fluid companies. Consideration for the acquisition was comprised of acquisition notes, the issuance of Class A Common limited partnership units ("Class A Units") and Class B subordinated limited partnership units ("Subordinated Class B Units"). On March 2, 2006 the acquisition notes were repaid with the proceeds from the Partnership's initial public offering of the 5,893,866 Class A Units.

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. Basis of Presentation

The financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles.

3. Significant Accounting Policies:

(a) Cash and cash equivalents:

The Partnership considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less from the acquisition date as cash and cash equivalents.

(b) Inventory:

Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized using the straight-line method over their estimated useful lives at the following rates:

Computer equipment and software	3 years	straight-line method
Vehicles	3 years	straight-line method
Field equipment	5 years	straight-line method
Furniture and fixtures	5 years	straight-line method
Buildings	10 years	straight-line method

The Partnership regularly reviews its property and equipment to account for impairment.

(d) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it were the purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

(e) Revenue recognition:

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. Revenue from field service charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue will only be recognized when collection is reasonably assured.

(f) Unit-based compensation:

The Partnership uses the fair value method to account for options granted to employees and directors. Under the fair value method, the fair value of the options is estimated at the grant date using the Black-Scholes option pricing method, and such fair value is expensed over the vesting period, with a corresponding increase in contributed surplus. The amount of compensation expense and contributed surplus is reduced for options that are cancelled prior to vesting. Any consideration received upon the exercise of the unit based compensation together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as an increase in unitholders' capital.

(g) Income taxes:

The income of the Partnership is taxed at the partner level. As a result, provisions for income and capital taxes are not made by the Partnership. These financial statements include the assets, liabilities, and operations of the Partnership and do not include the assets, liabilities, including income tax, of the partners.

(h) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment. Actual results could differ from these estimates.

(i) Earnings per unit:

Basic earnings per unit are computed by dividing net earnings by the weighted average number of units outstanding during the year. The Partnership uses the treasury stock method for calculating diluted earnings per unit. Diluted earnings per unit are computed similar to basic earnings per unit except that the weighted average units outstanding are increased to include additional units from the assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises were used to acquire units of common stock at the average market price during the year. Diluted earnings per unit are also adjusted to include the additional Class A Units that would result if the convertible promissory notes outstanding at June 30, 2006 were fully converted at $10.00 per unit.

(j) Financial instruments:

The net carrying value of accounts receivable approximates fair value due to the short-term nature of these instruments. The Partnership has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The carrying value of accounts payable and accrued liabilities and distributions payable approximate the fair value of these financial instruments due to their short-term nature.

The Partnership is exposed to minimal interest rate risk due to limited long-term liabilities outstanding.

4. Business Acquisitions:

On March 2, 2006, the Partnership completed the acquisition of the drilling fluid businesses from Impact Fluid Systems Inc. ("Impact") and Canadian Fluid Systems Ltd. ("CFS") (collectively the "Vendors") for an aggregate purchase price of $80.7 million, plus a working capital adjustment of $6.0 million. The purchase price was funded by the payment of $50.6 million in acquisition notes payable, $6.0 million payable to the Vendors, the issuance of 860,594 Class A Units and the issuance of 2,151,486 Subordinated Class B Units at the initial public offering (the "IPO") price of $10.00 per unit. The working capital adjustment was determined by the Partnership within a 120-day period from the acquisition date. The acquisition has been accounted for using the purchase method.

22 Notes to Financial Statements (in thousands of dollars, except unit and per unit amounts)

	Impact	CFS	Total
Net assets acquired	$	$	$
Current assets	17,161	10,694	27,855
Property and equipment	659	16	675
Goodwill	37,621	38,345	75,966
Current liabilities	(11,860)	(5,694)	(17,554)
Long-term debt	(220)	-	(220)
	43,361	43,361	86,722

Consideration	$	$	$
Acquisition notes	25,301	25,301	50,602
Due to Vendors	3,000	3,000	6,000
Class A Units	4,303	4,303	8,606
Subordinated Class B Units	10,757	10,757	21,514
	43,361	43,361	86,722

The acquisition notes were repaid with proceeds from the initial public offering (note 8).

The payable to the Vendors are unsecured promissory notes that are for a term of two years from March 2, 2006, at such time they become payable on demand, and are non-interest bearing for the first year of the term but shall bear interest at the Royal Bank of Canada prime rate on the second year of the term. The promissory notes carry a conversion option in favour of the Vendors to convert the amounts payable into Class A Units at a conversion price of $10.00 per unit for a period of up to six months from March 2, 2006, the date of the acquisition. During June 2006 $1.0 million in promissory notes were converted and an additional $3.0 million were converted in July 2006 (notes 8 and 16).

The above business acquisitions were transacted with certain individuals, or entities controlled by them, who as a result of the acquisitions are significant unitholders of the Partnership. These individuals or persons related to them have continued in key management roles with the General Partner. These individuals include, Rodney L. Carpenter and Thomas J. Simons who are officers, directors, and significant shareholders of CFS and Impact, respectively, as well as directors of the General Partner.

5. Cash and Cash equivalents:

The major components of cash and cash equivalents are as follows:

Cash	$ 1,048
Temporary investments	6,900
	$ 7,948

Notes to Financial Statements (in thousands of dollars, except unit and per unit amounts) 23

6. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value June 30,2006
Computer equipment and software	$ 88	$ 7	$ 81
Vehicles	769	63	706
Field equipment	195	15	180
Furniture and fixtures	99	5	94
Buildings	222	7	215
Land	9	-	9
	$ 1,382	$ 97	$ 1,285

7. Credit Facilities and Vehicle Financing Loans

In June 2006, the Partnership entered into a revolving demand facility with a commercial bank that permits the Partnership to borrow up to $3.0 million at the bank's prime rate of interest plus 0.50%. The facility is secured by a general security agreement containing a first ranking security interest in 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.

Vehicle financing loans, repayable in monthly payments of $0.8- $1.7, maturing from June 2007 to June 2010	$ 610
Less current portion	314
	$ 296

Principal payments are as follows for the periods ending June 30:	
2007	$ 314
2008	211
2009	73
2010	12

8. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units.

	Number of units	Amount
Class A Units issued pursuant to initial public offering	5,893,866	$ 58,939
Class A Units issued as consideration for acquired businesses	860,594	8,606
Subordinated Class B Units issued as consideration for acquired businesses	2,151,486	21,514
Unit issue expenses		(5,336)
Partnership units at March 31, 2006	8,905,946	$ 83,723
Class A Units issued on conversion of promissory notes (note 4)	100,000	1,000
Partnership units at June 30, 2006	9,005,946	$ 84,723

On March 2, 2006, the Partnership closed the IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit, for gross proceeds of $58.9 million or net proceeds of $53.6 million after offering expenses and underwriters' commission of $5.3 million.

24 Notes to Financial Statements (in thousands of dollars, except unit and per unit amounts)

In connection with the acquisition of the drilling fluid businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. The Subordinated Class B Units issued to CFS and Impact in connection with the acquisition are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and certain other limited circumstances. Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units.

On June 29, 2006, 100,000 units were issued at a price of $10.00 per unit on conversion of $1.0 million aggregate amount of the promissory notes issued to Impact in connection with the working capital adjustment.

9. Partnership Unit Option Plan

The Partnership may provide additional compensation to the General Partner's employees, officers, directors 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, 2006, 900,595 Class A Units were reserved for issuance under the Unit Option Plan, of which 301,095 Class A Units remain available for grant. The 599,500 outstanding options 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 tables summarize information about the Unit Option Plan as at June 30, 2006.

	Options	Average Exercise price
Outstanding, beginning of period	-	$ -
Granted at March 2, 2006	575,500	10.00
Exercised	-	-
Expired	-	-
Outstanding, end of period, March 31, 2006	575,500	$ 10.00
Granted at May 5, 2006	24,000	9.49
Outstanding, end of period, June 30, 2006	599,500	9.98
Exercisable, end of period, June 30, 2006	-	-

The fair value of the options granted during the 3 month period was $20. During the same period, compensation costs of $29 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 4.0%, a dividend yield of 9.5%, an expected volatility of 21% and expected lives of unit options of 5 years.

10. Earnings Per Unit:

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

Notes to Financial Statements (in thousands of dollars, except unit and per unit amounts) 25

	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
Net earnings	$ 675	$ 1,954
Average number of units outstanding:		
Basic	8,907,045	8,906,779
Effect of convertible promissory notes	5,494	4,167
Effect of unit options	-	82
Diluted	8,912,539	8,911,028
Earnings per unit:		
Basic	$ 0.08	$ 0.22
Diluted	$ 0.08	$ 0.22

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 pays 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. Such distributions are recorded as reductions of equity upon declaration of the distribution. The Partnership has paid distributions to holders of Class A Units and Subordinated Class B Units for the period ended June 30, 2006 in accordance with the following schedule:

Distribution Period 2006	Distributions Record Date	Date of Distribution	Per Class A Unit	Per Subordinated Class B Unit	Total
March 2 - 31	March 31	April 13	$ 0.0792	$ 0.0792	$ 705
April 1 –30	April 30	May 15	0.0792	-	535
May 1 – 31	May 31	June 15	0.0792	-	535
June 1 – 30	June 30	July 14	0.0792	-	543
April 1 – June 30	June 30	July 14	-	0.2376	511
Total Distributions					$ 2,829

12. Commitments

(a) The Partnership has an agreement regarding a sublease for office space until December 31, 2006 and expects to pay approximately $248 of rent and operating costs in fiscal 2006.

(b) The Partnership has numerous operating vehicle leases and expects to pay approximately $168 in vehicle lease expense in fiscal 2006, $70 in fiscal 2007 and $4 in fiscal 2008.

13. Payments to the General Partner

The General Partner will be allocated 0.01% of the taxable income of the Partnership for each fiscal year and 99.9% of the taxable income of the Partnership will be allocated to the holders of Class A Units and Subordinated Class B Units.

26 Notes to Financial Statements (in thousands of dollars, except unit and per unit amounts)

14. Related Party Transactions:

Due to Vendors	As at June 30, 2006
Due to Canadian Fluid Systems Ltd.	$ 3,000
Due to Impact Fluid Systems Inc.	2,000
	$ 5,000

Amounts due to the Vendors of $5.0 million represents the balance owing to companies controlled by certain directors, officers and unitholders of the Partnership for the purchase of the businesses of CFS and Impact. The amount was determined based on a working capital adjustment pursuant to the respective drilling fluid business acquisition agreements, as amended. This amount is represented by unsecured promissory notes that are for a two year term, at such time they become payable on demand, and are non-interest bearing for the first year of the term but shall bear interest at the Royal Bank of Canada prime rate on the second year of the term. On June 29, 2006 $1.0 million of the promissory notes were converted into Class A Units. Subsequent to the period end, additional promissory notes were converted (note 16).

On March 2, 2006, the Partnership acquired certain land, building and related equipment (the "Carlyle facility") from persons who are non-arms length with CES. The Carlyle facility was acquired from a corporation that was owned by Rodney L. Carpenter, Kenneth D. Zandee and a third party. Mr. Carpenter is an officer and director of CES and a significant shareholder of CFS as well as a director of the General Partner. Mr. Zandee is an officer of CES and a significant shareholder of CFS. The Carlyle facility was acquired for $260,000 which represented fair market value.

15. Supplemental Information:

Components of change in non-cash working capital balances:	Three Months Ended June 30, 2006	121-day Period Ended June 30, 2006
Operating:		
Accounts receivable	$ 11,543	$ 12,052
Inventory	334	(271)
Due from Vendors	266	-
Prepaid expenses	127	(204)
Accounts payable and accrued liabilities	(9,106)	(6,443)
	3,164	5,134
Financing:		
Accounts payable and accrued liabilities	(812)	-
	$ 2,352	$ 5,134

16. Subsequent Events:

On July 19, 2006, the $3.0 million aggregate amount unsecured promissory notes due to Canadian Fluid Systems Ltd. were converted into Class A Units at a conversion price of $10.00 per unit. The balance outstanding in promissory notes was reduced to $2.0 million after the conversion.

On July 21, 2006, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on July 31, 2006.

BOARD OF DIRECTORS

Kyle D. Kitagawa [1]
Chairman

Alan D. Archibald [2]

Colin D. Boyer [1,2]

John M. Hooks [2]

D. Michael G. Stewart [1]

Thomas J. Simons

Rodney L. Carpenter

OFFICERS

Thomas J. Simons
President and Chief Executive Officer

Laura A. Cillis
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Rodney L. Carpenter
Vice President, Business Development

A. David Rosenthal
Vice President, Operations

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
Royal Bank of Canada, Calgary, AB

SOLICITORS
Blake, Cassels & Graydon LLP
Calgary, AB

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

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

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1 Member of the Audit Committee

2 Member of the Governance and Compensation Committee

2nd Interim Report