Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2009

Consolidated Balance Sheets (unaudited)

(stated in thousands of dollars except per unit amounts)

	As at	
	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Accounts receivable	**20,400**	47,286
Inventory (note 3)	**7,663**	10,903
Prepaid expenses	**366**	441
	28,429	58,630
Property and equipment (note 4)	**12,969**	12,519
Intangible assets (note 5)	**3,374**	4,199
Goodwill	**49,913**	49,913
	94,685	125,261
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 6)	**2,991**	12,702
Accounts payable and accrued liabilities	**11,795**	25,578
Financial derivative liability (note 13)	**15**	-
Earn-out payable (note 12)	**207**	2,000
Distributions payable	**901**	1,225
Current portion of long-term debt (note 7)	**1,050**	1,300
	16,959	42,805
Long-term debt (note 7)	**2,589**	3,474
Future income tax liability	**2,230**	2,004
	21,778	48,283
Unitholders' equity		
Class A Units (note 8)	**107,551**	84,352
Subordinated Class B Units (note 8)	**-**	21,514
Contributed surplus (note 10)	**2,089**	1,531
Deficit	**(36,733)**	(30,419)
	72,907	76,978
	94,685	125,261

Commitments (note 12)

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"	*"D. Michael Stewart"*
Thomas J. Simons	D. Michael Stewart
President & Chief Executive Officer and Director	*Director & Chairman, Audit Committee*

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

Consolidated Statements of Operations, Comprehensive Earnings and Deficit (unaudited)
(stated in thousands of dollars except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	**2009**	2008
		(Note 18)		(Note 18)
Revenue	**19,219**	40,850	**62,151**	83,684
Cost of sales (note 3)	**13,134**	28,662	**44,599**	58,968
Gross margin	**6,085**	12,188	**17,552**	24,716
Expenses				
Selling, general, and administrative expenses	**4,079**	4,525	**11,981**	10,587
Amortization	**840**	740	**2,600**	1,515
Unit-based compensation (note 9)	**147**	509	**703**	1,605
Interest expense	**82**	112	**274**	358
Foreign exchange loss	**94**	12	**27**	60
Financial derivative loss (note 13)	**53**	-	**15**	-
Loss on disposal of assets	**2**	17	**69**	25
	5,297	5,915	**15,669**	14,150
Net earnings before taxes	**788**	6,273	**1,883**	10,566
Future income tax expense	**70**	29	**225**	95
Net earnings and comprehensive earnings	**718**	6,244	**1,658**	10,471
Deficit, beginning of period	**(34,768)**	(36,072)	**(30,419)**	(35,699)
Unitholders' distributions declared (note 11)	**(2,683)**	(2,653)	**(7,972)**	(7,253)
Deficit, end of period	**(36,733)**	(32,481)	**(36,733)**	(32,481)
Net earnings per unit (note 8)				
Basic and diluted	**0.06**	0.56	**0.15**	1.03

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

Consolidated Statements of Cash Flow (unaudited)

(stated in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	**2009**	2008
		(Note 18)		(Note 18)
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net earnings for the period	**718**	6,244	**1,658**	10,471
Items not involving cash:				
Amortization	**840**	740	**2,600**	1,515
Unit-based compensation	**147**	509	**703**	1,605
Future income tax expense	**70**	29	**225**	95
Loss on disposal of assets	**2**	17	**69**	25
Unrealized foreign exchange (gain) loss	**98**	(21)	**34**	(2)
Unrealized financial derivative loss	**47**	-	**9**	-
Change in non-cash operating working capital (note 15)	**(2,719)**	(13,972)	**16,182**	(15,258)
	(797)	(6,454)	**21,480**	(1,549)
FINANCING ACTIVITIES:				
Repayment of long-term debt	**(276)**	(314)	**(1,238)**	(1,659)
Issuance of long-term debt	**-**	-	**-**	2,550
Issuance of Class A Units, net of issuance costs	**96**	4	**96**	11,908
Increase (decrease) in bank indebtedness	**2,991**	12,461	**(9,711)**	7,913
Distributions to unitholders	**(2,683)**	(2,512)	**(8,315)**	(6,971)
	128	9,639	**(19,168)**	13,741
INVESTING ACTIVITIES:				
Investment in property and equipment	**(1,462)**	(3,425)	**(2,818)**	(4,511)
Investment in intangible assets	**(3)**	(35)	**(45)**	(62)
Acquisition of Clear Environmental Solutions	**-**	-	**-**	(7,529)
Proceeds on disposal of fixed assets	**9**	38	**407**	72
Change in non-cash investing working capital (note 15)	**32**	(6)	**144**	(162)
	(1,424)	(3,428)	**(2,312)**	(12,192)
CHANGE IN CASH	**(2,093)**	(243)	**-**	-
Cash, beginning of period	**2,093**	243	**-**	-
Cash, end of period	**-**	-	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**65**	54	**312**	271
Taxes paid	**-**	-	**-**	-

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

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

2. Basis of Presentation and Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting principles and methods of computation as the Partnership's audited consolidated financial statements for the year ended December 31, 2008, except as noted below. These unaudited interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2008.

Goodwill and Intangible Assets

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

Derivative Financial Instruments

Derivative financial instruments are used by the Partnership to manage its exposure to market risk associated with currency fluctuations. The Partnership's policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments are classified as held for trading. These derivative instruments are recorded at fair values in which the fair value of the instruments is recorded on the consolidated balance sheet as either an asset or liability with changes in fair value recognized in the consolidated statement of operations. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statement of operations at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counter parties to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated balance sheet.

Future Accounting Pronouncements

Business Combinations

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

Consolidated Financial Statements and Non-Controlling Interests

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

Financial Instruments

In June 2009, the AcSB issued amendments to 3862, Financial Instruments - Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The

amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). The Partnership will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

3. Inventory

The cost of inventory expensed in cost of sales for the three and nine month periods ended September 30, 2009 was $8,819 and $29,033 respectively (2008 - $20,211 and $42,365 respectively).

4. Property and Equipment

Property and equipment are comprised of the following balances:

	As at September 30, 2009			As at December 31, 2008		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Trucks	**5,072**	**(1,005)**	**4,067**	3,842	(511)	3,331
Vehicles	**3,317**	**(1,352)**	**1,965**	4,052	(1,166)	2,886
Buildings	**3,720**	**(397)**	**3,323**	2,650	(186)	2,464
Field equipment	**1,808**	**(684)**	**1,124**	1,983	(456)	1,527
Land	**989**	**-**	**989**	981	-	981
Computer equipment and software	**1,016**	**(549)**	**467**	898	(350)	548
Tanks	**902**	**(84)**	**818**	505	(44)	461
Furniture and fixtures	**299**	**(131)**	**168**	364	(89)	275
Leasehold improvements	**69**	**(21)**	**48**	54	(8)	46
	17,192	**(4,223)**	**12,969**	15,329	(2,810)	12,519

5. Intangible Assets

Intangible assets are comprised of the following balances:

	As at September 30, 2009			As at December 31, 2008		
$000's	**Cost**	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Customer relationships	**4,100**	**(912)**	**3,188**	4,100	(408)	3,692
Technology	**-**	**-**	**-**	600	(250)	350
Patents	**217**	**(31)**	**186**	172	(15)	157
	4,317	**(943)**	**3,374**	4,872	(673)	4,199

As outlined further in note 8, in conjunction with the repurchase of 50,000 Class A Units, the Partnership returned the technology used in designing certain drilling fluid systems ("Drilling Fluid Technology") which had been acquired in June of 2008.

6. Bank Indebtedness

The Partnership has a revolving demand loan with a commercial bank permitting it to borrow up to $30,000, subject to the value of certain accounts receivable and inventory. As of September 30, 2009, the maximum available draw on the facility by the Partnership was $12,538 (December 31, 2008 - $20,000). At September 30, 2009, the Partnership had a total net draw of $2,991 (December 31, 2008 - $12,702) on the facility. Amounts drawn on the facility incur interest at the bank's prime rate plus 1.25%.

The facility is secured by a general security agreement creating a first priority security interest in all personal property of Canadian Energy Services Inc., the general partner of the Partnership (the "General Partner") the Partnership and its subsidiaries, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries, and a demand collateral mortgage on the Partnership's Edson, Alberta property.

7. Long-Term Debt

The Partnership has long-term debt as follows:

$000's	**September 30, 2009**	December 31, 2008
Vehicle financing loans	**1,351**	2,258
Committed loan facility	**2,288**	2,516
	3,639	4,774
Less current portion of long-term debt	**(1,050)**	(1,300)
Long-term debt	**2,589**	3,474

The Partnership has a non-revolving committed loan with a commercial bank for $1,614. At September 30, 2009, a total of $1,575 remained outstanding (December 31, 2008 - $1,653). The loan is repayable in fixed monthly principal payments of $10 plus interest at the bank's prime rate plus 1.40%. The loan has an initial term of five years, with the bank reserving the right to extend the term of the loan by two additional five year periods at its discretion.

The Partnership has a second non-revolving committed loan for $798. At September 30, 2009, a total of $713 remained outstanding (December 31, 2008 - $863). The loan is repayable over five years in fixed monthly principal payments of $17 plus interest at the bank's prime rate of interest plus 1.40%.

The Partnership has also established a non-revolving demand loan facility for $2,000. At September 30, 2009, a total of $Nil had been drawn on the facility (December 31, 2008 - $Nil). Any draws made on the facility are repayable in forty-eight equal monthly instalments plus interest at the bank's prime rate of interest plus 1.40%.

These long-term debt facilities are secured by the same general security agreement as the revolving demand loan creating a first priority security interest in all personal property of the General Partner, the Partnership and its subsidiaries, an unlimited corporate guarantee of the indebtedness of the Partnership given by the General Partner and the Partnership's subsidiaries, and a demand collateral mortgage on the Partnership's Edson, Alberta property.

Vehicle financing loans are secured by each related vehicle and incur interest at rates ranging from 0% to 13% and have terms ranging from October 2009 to December 2012.

Scheduled principal payments at September 30, 2009 are as follows:

$000's	
2009 - 3 Months	**265**
2010	**1,029**
2011	**722**
2012	**364**
2013	**1,259**
Total	**3,639**

8. Unitholders' Equity

a) Authorized

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

b) Issued and outstanding

A summary of the changes to unitholders' equity for the period is presented below:

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008	
Class A Units *($000's except units)*	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of period	**9,018,315**	**84,352**	7,229,460	66,959
Equity issue, net of share issue costs and tax	**-**	**-**	1,234,200	11,868
Consideration for acquired business	**223,054**	**1,793**	380,488	3,900
Consideration for acquisition of intangible asset	**-**	**-**	75,000	600
Issued pursuant to Unit Bonus Plan	**20,500**	**224**	75,500	810
Issued pursuant to Unit Option Plan	**12,500**	**96**	23,475	186
Contributed surplus related to unit option exercise	**-**	**39**	-	29
Issued pursuant to Distribution Rights Plan	**2,200**	**-**	192	-
Units repurchased	**(50,000)**	**(467)**	-	-
Conversion of Subordinated Class B Units	**2,151,486**	**21,514**	-	-
Balance, end of period	**11,378,055**	**107,551**	9,018,315	84,352

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008	
Subordinated Class B Units	**Number of Units**	**Amount**	Number of Units	Amount
Balance, beginning of period	**2,151,486**	**21,514**	2,151,486	21,514
Conversion of Subordinated Class B Units	**(2,151,486)**	**(21,514)**	-	-
Balance, end of period	**-**	**-**	2,151,486	21,514

On January 9, 2009, the Partnership repurchased for cancellation 50,000 Class A Units for total aggregate consideration of $1.00 which had previously been held in escrow as a result of the previous acquisition of the Drilling Fluid Technology in June of 2008. In conjunction with this transaction, the Drilling Fluid Technology previously acquired has been returned. For accounting purposes, the value of the shares repurchased was computed as $7.00 per unit for a total of $350 representing the deemed fair value of the Drilling Fluid Technology which was returned.

On March 1, 2009, the subordination period relating to the Subordinated Class B Units expired pursuant to the terms of the Amended and Restated Limited Partnership Agreement dated March 2, 2006. Following the end of the subordination agreement, the Subordinated Class B Units could be exchanged, on a one for one basis, for Class A Units. On March 11, 2009, 1,075,743 Subordinated Class B Units were exchanged for an equivalent number of Class A Units. On April 14, 2009, the remaining 1,075,743 Subordinated Class B Units were exchanged for an equivalent number of Class A Units.

Pursuant to the Partnership's acquisition of the business assets of Clear Environmental Solutions Inc. on June 26, 2008, the Partnership issued 223,054 Class A Units of the Partnership on August 28, 2009 as partial settlement of $1,793 of the maximum eligible earn-out consideration of $2,000. Refer to note 12 for additional information.

c) Earnings per unit

Basic earnings per unit are based on the income attributable to unitholders for the period divided by the weighted average number of Class A Units and Subordinated Class B Units outstanding during the period. The diluted earnings per unit are based on the weighted average number of Class A Units and Subordinated Class B Units outstanding during the period plus the effects of dilutive unit equivalents. This method requires that the dilutive effect of outstanding unit options, bonus units, and distribution rights issued should be calculated using the treasury stock method. The treasury stock method assumes that all unit

equivalents have been exercised and that the funds obtained thereby were used to purchase units of the Partnership at the average trading price of the Class A Units during the period. In calculating the basic and diluted earnings per unit for the respective three and nine month periods ended September 30, the weighted average number of units used in the calculation is shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's, except unit and per unit amounts	**2009**	2008	**2009**	2008
Net earnings and comprehensive earnings	**718**	6,244	**1,658**	10,471
Weighted average number of units outstanding:				
Basic units outstanding	**11,224,912**	11,166,513	**11,163,521**	10,129,716
Effect of dilutive securities	**72,400**	64,376	**19,972**	-
Diluted units outstanding	**11,297,312**	11,230,889	**11,183,493**	10,129,716
Net earnings per unit (basic and diluted)	**$0.06**	$0.56	**$0.15**	$1.03

9. Unit-Based Compensation

As at September 30, 2009, a total of 1,137,806 Class A Units were reserved for issuance under the Unit Option Plan, the Distribution Rights Plan, and the Unit Bonus Plan of which 307,731 Class A Units remain available for grant.

a) Partnership Unit Option Plan

The Partnership may provide incentives 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. Options granted generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the grant. A summary of changes to the unit options granted under the Unit Option Plan is presented below:

	Nine Months Ended September 30, 2009		Year Ended December 31, 2008	
	Options	**Average Exercise Price**	Options	Average Exercise Price
Balance, beginning of period	**725,500**	**$9.08**	695,000	$8.78
Granted during the period	**85,000**	**6.38**	158,500	10.27
Exercised during the period	**(12,500)**	**7.71**	(23,475)	7.92
Forfeited during the period	**(82,500)**	**9.70**	(104,525)	9.15
Balance, end of period	**715,500**	**$8.71**	725,500	$9.08
Exercisable options, end of period	**519,334**	**$9.04**	377,505	$9.07

The following table summarizes information about the Unit Options outstanding at September 30, 2009:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options	Weighted average exercise price	Weighted average term remaining in years	Options	Weighted average exercise price
$5.53 - $8.00	317,000	$7.00	2.49	202,000	$7.36
$8.01 - $11.31	398,500	10.07	2.14	317,334	10.11
	715,500	$8.71	2.29	519,334	$9.04

The fair value of the unit options granted during the three and nine month periods ended September 30, 2009 was $Nil and $266 respectively. For the three and nine month periods ended September 30, 2009, unit-based compensation expense of $147 and $636 respectively (2008 - $442 and $706 respectively) was recorded relating to the Partnership's Unit Option Plan. The

compensation costs for unit options granted during the period were calculated using the Black-Scholes option pricing model using the following assumptions:

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Risk-free interest rate	**1.85% - 1.89%**	2.98% - 4.50%
Expected life of options	**5 years**	5 years
Dividend yield	**Nil**	Nil
Expected volatility	**55% - 56%**	49% - 56%
Weighted average fair value per unit	**$3.13**	$4.87

b) Partnership Distribution Rights Plan

The Partnership's Distribution Rights Plan provides long-term incentive to directors, officers, employees, and service providers of the Partnership who are providing services to the Partnership, the General Partner, or their affiliates through the issuance of Distribution Rights which are redeemable for Class A Units on the basis of distributions paid by the Partnership, thereby reflecting the total returns to holders of Class A Units. Under the Distribution Rights Plan, Class A Units are accumulated in the notional accounts of Distribution Rights holders. A summary of the changes to the Class A Units accumulated under the Distribution Rights Plan is presented below:

Class A Units Accumulated From Distribution Rights	**Nine Months Ended September 30, 2009**	Year Ended December 31, 2008
Balance, beginning of period	**46,812**	-
Granted during the period	**79,211**	51,290
Redeemed during the period	**(2,200)**	(192)
Forfeited during the period	**(9,249)**	(4,286)
Balance, end of period	**114,574**	46,812

c) Partnership Unit Bonus Plan

The Partnership's Unit Bonus Plan is used to provide additional compensation, in lieu of cash bonuses, to the employees, officers, and certain service providers of the Partnership, subsidiaries of the Partnership, or the General Partner through the issuance of up to an aggregate maximum of 125,000 Class A Units. As of September 30, 2009, a total of 96,000 Bonus Units have been issued pursuant to the Unit Bonus Plan. During the three and nine month periods ended September 30, 2009, the Partnership has recognized $Nil and $67 respectively of unit-based compensation expense (2008 - $67 and $899 respectively) relating to the Unit Bonus Plan.

10. Contributed Surplus

The following table reconciles the Partnership's contributed surplus:

$000's	**September 30, 2009**	December 31, 2008
Contributed surplus, beginning of period	**1,531**	273
Unit-based compensation	**703**	1,287
Units repurchased at less than carrying value	**117**	-
Units issued pursuant to Unit Bonus Plan	**(224)**	-
Exercise of unit options	**(39)**	(29)
Contributed surplus, end of period	**2,089**	1,531

11. Cash Distributions

The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the period ended September 30, 2009 as follows:

$000's except per unit amounts	**Distribution Record Date**	**Distribution Payment Date**	**Per Class A Unit**	**Per Class B Unit**	**Total**
Jan 1 - 31	Jan 31	Feb 15	0.0792	-	**710**
Feb 1 - 28	Feb 28	Mar 15	0.0792	-	**710**
Jan 1 - Feb 28	Feb 28	Apr 15	-	0.1584	**426**
Mar 1 - 31	Mar 31	Apr 15	0.0792	0.0792	**796**
Apr 1 - 30	Apr 30	May 15	0.0792	-	**882**
May 1 - 31	May 31	Jun 15	0.0792	-	**882**
Jun 1 - 30	Jun 30	Jul 15	0.0792	-	**882**
Jul 1 - 31	Jul 31	Aug 15	0.0792	-	**883**
Aug 1 - 31	Aug 31	Sep 15	0.0792	-	**900**
Sep 1 - 30	Sep 30	Oct 15	0.0792	-	**900**
Total distributions declared during the period			0.7128	0.2376	**7,972**

As noted in note 8b, on March 1, 2009, the subordination period relating to the Subordinated Class B Units expired pursuant to the terms of the Amended and Restated Limited Partnership Agreement. Following this, distributions to Subordinated Class B Units were made on a monthly basis. Effective April 11, 2009, all outstanding Subordinated Class B Units had been converted to Class A Units.

12. Commitments and Earn-Out Payable

The Partnership has commitments with payments due as follows:

$000's	**2009 - 3 Months**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Office rent	196	723	727	432	53	-	**2,131**
Vehicle operating leases	12	31	15	13	-	-	**71**
Total	208	754	742	445	53	-	**2,202**

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

In connection with the acquisition of the business assets of Clear Environmental Solutions Inc. on June 12, 2008, the Partnership was required to pay consideration pursuant to the earn-out payment of $2,000. The consideration payable under the agreement was determined by subtracting $2,400 from the net income from operations before management bonuses and investment income of the Partnership attributable to the business and assets acquired in connection with the acquisition for the twelve month period ended June 30, 2009 and multiplying the result by a four times multiple. On August 28, 2009, $1,793 of this amount was satisfied through the issuance of 223,054 Class A Units of the Partnership. The Partnership has accrued a liability of $207 relating to the remaining earn-out payable contingent upon the collection of selected accounts receivable balances prior to December 31, 2009. To date, $38 of the selected outstanding accounts receivable balances have been collected resulting in a confirmed minimum earn-out payable of $152 at December 31, 2009. The earn-out payable outstanding at December 31, 2009 will be settled in cash.

13. Financial Instruments and Risk Management

The classification of financial instruments remains consistent at September 30, 2009 with those at December 31, 2008. The carrying values of financial liabilities where interest is charged based on a variable rate are equal to fair value. The carrying value of long-term debt where interest is charged at a fixed rate is not significantly different than fair value. The carrying values of all other financial instruments approximate their fair value due to the relatively short period to maturity of the instruments.

a) Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Partnership. The Partnership manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable includes balances from a large number of customers operating primarily in the oil and natural gas industry. Accordingly, the Partnership views the credit risks on these amounts as normal for the industry. An analysis of accounts receivable which are past due but not impaired is as follows:

	As at	
$000's	**September 30, 2009**	December 31, 2008
Past due 61-90 days	**1,398**	3,450
Past due 91-120 days	**71**	1,491
Past 120 days	**322**	318
Total past due	**1,791**	5,259

The Partnership reduces an account receivable to its estimated recoverable amount. At September 30, 2009, the Partnership had recorded a provision of $280 (December 31, 2008 - $428) relating to accounts receivable which may not be collectible.

b) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Partnership is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Partnership manages this risk by monitoring interest rate trends and forecasted economic conditions. As of September 30, 2009, the Partnership had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Partnership's net earnings would be approximately $5 and $26 lower/higher for the three and nine month periods ended September 30, 2009.

c) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Partnership's foreign currency risk arises from balances denominated in foreign currencies and on the translation of its foreign operations. The Partnership uses the US Dollar as its functional currency for the operations of AES Drillings Fluids, LLC. Gains and/or losses resulting from foreign exchange variances are included in earnings. The Partnership manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the three and nine month periods ended September 30, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease/increase earnings of the Partnership by $2 and $2 respectively.

At September 30, 2009, the Partnership had entered into the following foreign exchange US dollar forward purchase contracts to manage its exposure to upcoming US dollar denominated purchases:

Period	Notional Balance $000's	Contract Type	Settlement	Average C$/US$ Exchange Rate
October 2009	US$391	Deliverable Forward	Physical Purchase	$1.0970
November 2009	US$705	Deliverable Forward	Physical Purchase	$1.1004
Total	US$1,096			$1.0992

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated balance sheet. The contracts are transacted with counter parties with whom management has assessed credit risk and due to their short term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Partnership has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the balance sheet as assets or liabilities with changes in their fair value recorded in net earnings for the period. For the three and nine month periods ended September 30, 2009, the Partnership recorded a realized loss of $6 and $6 respectively (2008 - $Nil and $Nil respectively) relating to its foreign currency derivative contracts. For the three and nine month periods ended September 30, 2009, the Partnership recorded an unrealized loss of $47 and $9 respectively (2008 - $Nil and $Nil respectively) relating to its foreign currency derivative contracts. The fair value of these risk management liabilities at September 30, 2009 was $15 (December 31, 2008 – $Nil). During the three and nine month periods ended September 30, 2009, a 1% increase/decrease in the Canadian dollar vis-à-vis the US dollar is estimated to decrease / increase earnings of the Partnership by $12 and $21 respectively as a result of the change in fair value of these contracts.

d) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Partnership's is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Partnership is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall drilling activity and the demand for the Partnership's products and services. In addition, through its operations, the Partnership purchases various chemicals and oil based products and is directly exposed to changes in the prices of these items. As of September 30, 2009, the Partnership had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

e) Liquidity risk

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they become due and describes the Partnership's ability to access cash. The Partnership requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund the Partnership's cash distributions, and settle other liabilities of the Partnership as they come due. The Partnership manages liquidity risk by maintaining a revolving demand loan facility and through management of its operational cash flows. The following table details the remaining contractual maturities of the Partnership's financial liabilities:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	11,795	-	-	-	-	**11,795**
Distributions payable [2]	901	-	-	-	-	**901**
Financial derivative liability	15	-	-	-	-	**15**
Contingency payable	207	-	-	-	-	**207**
Long-term debt at fixed interest rates [3]	186	546	541	77	-	**1,350**
Long-term debt at floating interest rates [3]	79	238	317	1,655	-	**2,289**
Office and vehicle operating leases	208	566	745	684	-	**2,202**
Total	13,391	1,350	1,603	2,416	-	**18,759**

[1] Payments denominated in foreign currencies have been translated at the respective September 30, 2009 exchange rate

[2] Distributions declared as of September 30, 2009

[3] Long-term debt information reflects principal payments and excludes interest portion

14. Capital Management

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

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

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

- The quarterly debt to equity ratio must not exceed 2.50 to 1.00. The ratio of debt to equity is calculated as total liabilities per the financial statements, less future income taxes and net of any cash credit balances, divided by total unitholders' equity per the financial statements, less any intangible assets including goodwill.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. The ratio of current assets to liabilities is calculated as total current assets per the financial statements divided by current liabilities per the financial statements less current portion of long-term debt.
- The Partnership's annual debt service coverage ratio must not be less than 1.25 to 1.00. The debt service coverage ratio is calculated as net earnings for the period, before interest expense, future income tax expense, unit-based compensation, and amortization divided by the sum of all interest and principal payments for the period.

If the Partnership does not meet any one of these requirements, it is considered to be in default of the agreement and is restricted from making any distributions to unitholders without the prior written consent of the commercial bank. As at September 30, 2009, the Partnership has met all of the requirements under this agreement.

15. Supplemental Information
The changes in non-cash working capital were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2009**	2008	**2009**	2008
Operating activities				
Decrease (increase) in current assets				
Accounts receivable	**(5,965)**	(25,608)	**26,874**	(23,524)
Inventory	**1,208**	(3,943)	**3,240**	(6,592)
Prepaid expenses	**48**	(76)	**75**	(230)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**1,990**	15,655	**(14,007)**	15,088
	(2,719)	(13,972)	**16,182**	(15,258)
Investing activities				
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**32**	(6)	**144**	(162)
	32	(6)	**144**	(162)

16. Segmented Information
The Partnership has two reportable segments as determined by management, which are the Drilling Fluids segment and the Environmental Services segment. The Drilling Fluids segment designs and implements drilling fluid systems for the oil and natural gas industry in the Western Canadian Sedimentary Basin and in the United States through its subsidiary, AES Drilling Fluids, LLC. The Environmental Services segment is comprised of the Partnership's environmental division, Clear. The Environmental Services segment provides environmental and drilling fluids waste disposal services mostly to oil and gas producers active in the shallow natural gas producing areas of Alberta as well as to Alberta's oil sands. Selected summary financial information relating to the operational segments is as follows:

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
$000's	Drilling Fluids	Environmental Services	**Total**	Drilling Fluids	Environmental Services (1)	**Total**
Revenue	17,890	1,329	**19,219**	55,993	6,158	**62,151**
Gross margin	5,555	530	**6,085**	15,253	2,299	**17,552**
Amortization	828	12	**840**	2,561	39	**2,600**
Interest expense	82	-	**82**	274	-	**274**
Net earnings before taxes	639	79	**718**	882	776	**1,658**
Total assets	78,741	15,944	**94,685**	78,741	15,944	**94,685**
Capital expenditures	1,462	-	**1,462**	2,816	2	**2,818**

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
$000's	Drilling Fluids	Environmental Services	Total	Drilling Fluids	Environmental Services (1)	Total
Revenue	36,629	4,221	40,850	78,930	4,754	83,684
Gross margin	10,808	1,380	12,188	23,139	1,577	24,716
Amortization	720	20	740	1,491	24	1,515
Interest expense	112	-	112	358	-	358
Net earnings before taxes	5,425	819	6,244	9,539	932	10,471
Total assets	110,818	13,202	124,020	110,818	13,202	124,020
Capital expenditures	3,418	7	3,425	4,504	7	4,511

(1) The Environmental Services segment is comprised of the Partnership's environmental division which was acquired on June 12, 2008 and as such comparative figures for 2008 represent the shortened period.

Geographical information relating to the Partnership's activities is as follows:

	Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2009**	2008	**2009**	2008
Canada	**18,492**	39,197	**59,275**	80,193
United States (1)	**727**	1,653	**2,876**	3,491
Total	**19,219**	40,850	**62,151**	83,684

(1) AES Drilling Fluids, LLC commenced operations in 2008.

	Long-Term Assets (2)	
$000's	**September 30, 2009**	December 31, 2008
Canada	**64,955**	64,957
United States	**1,301**	1,674
Total	**66,256**	66,631

(2) Includes: Property, plant, and equipment, goodwill, and intangible assets

17. Economic Dependence

For the three and nine month periods ended September 30, 2009, one customer accounted for 7.9% and 13.7% respectively (2008 – 6.8% and 9.8% respectively) of the Partnership's total revenue.

18. Comparative Figures

Certain of the prior year figures have been reclassified to conform to the current year's presentation.

Partnership Information

BOARD OF DIRECTORS
Kyle D. Kitagawa[1]
Chairman

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

Craig F. Nieboer
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
HSBC Bank Canada, Calgary, AB

SOLICITORS
Blakes, Cassels & Graydon LLP, Calgary, AB

REGISTRAR & TRANSFER AGENT
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