# Q3

Three and nine months ended September 30, 2009
As at November 6, 2009

Canadian Energy SERVICES L.P.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the interim consolidated financial statements for the three and nine month periods ended September 30, 2009 and the 2008 Annual Report, including the audited consolidated financial statements and notes thereto of Canadian Energy Services L.P. ("CES" or the "Partnership") for the years ended December 31, 2008 and December 31, 2007. The information contained in this MD&A was prepared up to and including November 6, 2009 and incorporates all relevant considerations to that date.*

*Certain statements in this MD&A may constitute forward-looking information or forward-looking statements (collectively referred to as "forward-looking information") which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Partnership, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", and other similar terminology. This information reflects the Partnership's current expectations regarding future events and operating performance and speaks only as of the date of the MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. The management of the Partnership believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements contained in this document speak only as of the date the document, and the Partnership assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.*

*In particular, this MD&A may contain forward-looking information pertaining to the following: future estimates as to distribution levels; capital expenditure programs for oil and natural gas; supply and demand for the Partnership's products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers; dependence on suppliers of inventory and product inputs; equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada, the United States and internationally; development of new technology; expectations regarding the performance of the Partnership's environmental and transportation operations; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.*

*The Partnership's actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, taxation of trusts, public partnerships and other flow-through entities, and changes to the royalty regimes applicable to entities operating in the Western Canadian Sedimentary Basin and the United States; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates and the other factors considered under "Risk Factors" in the Partnership's Annual Information Form for the period ended December 31, 2008 and "Risks and Uncertainties" in this MD&A.*

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

# BUSINESS OF THE PARTNERSHIP

The core business of CES is to design and implement drilling fluid systems for oil and natural gas producers. CES operates in the Western Canadian Sedimentary Basin ("WCSB") and the United States ("US"), with an emphasis on servicing the ongoing major resource plays. The drilling of those major resources plays includes wells drilled vertically, directionally, and with increasing frequency, horizontally. Horizontal drilling is a technique utilized in tight formations like shale gas, shale oil, heavy oil, and in the oil sands. The designed drilling fluid encompasses the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. The Partnership's drilling fluid systems are designed to be adaptable to a broad range of complex and varied drilling scenarios, to help clients eliminate inefficiencies in the drilling process and to assist them in meeting operational objectives and environmental compliance obligations. The Partnership markets its technical expertise and services to oil and natural gas exploration and production entities by emphasizing the historical success of both its patented and proprietary drilling fluid systems and the technical expertise and experience of its personnel.

Clear Environmental Solutions ("Clear"), the Partnership's environmental division, provides environmental and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. The business of Clear involves determining the appropriate processes for disposing of or recycling fluids produced by drilling operations and to carry out various related services necessary to dispose of drilling fluids.

The Partnership's head office and the sales and services headquarters are located in Calgary, Alberta and its stock point facilities and other operations are located throughout Alberta, British Columbia, and Saskatchewan. The Partnership's indirect wholly-owned subsidiary, AES Drilling Fluids, LLC ("AES"), conducts operations in the United States from its head office in Denver with stock point facilities currently located in both Oklahoma and Utah.

# NON-GAAP MEASURES

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

***EBITDAC*** – means net earnings before interest, taxes, amortization, loss on disposal of assets, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, and unit-based compensation. EBITDAC is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. EBITDAC was calculated as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2009** | 2008 | **2009** | 2008 |
| Net earnings and comprehensive earnings | **718** | 6,244 | **1,658** | 10,471 |
| Add back (deduct): | | | | |
| Amortization | **840** | 740 | **2,600** | 1,515 |
| Interest expense, net of interest income | **82** | 112 | **274** | 358 |
| Future income tax expense | **70** | 29 | **225** | 95 |
| Unit-based compensation | **147** | 509 | **703** | 1,605 |
| Unrealized foreign exchange (gain) loss | **98** | (21) | **34** | (2) |
| Unrealized derivative loss | **47** | - | **9** | - |
| Loss on disposal of assets | **2** | 17 | **69** | 25 |
| EBITDAC (1) | **2,004** | 7,630 | **5,572** | 14,067 |

***Notes:***
*[1] Prior year balances recomputed to conform to current year financial statement presentation.*

***Distributable funds*** – means funds flow from operations less maintenance capital. See the definition of funds flow from operations below and the definition of maintenance capital under "Operational Definitions". Distributable funds is a measure used by management and investors to analyze the amount of funds available to distribute to unitholders before consideration of funds required for growth purposes. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" for the calculation of distributable funds.

***Funds flow from operations*** – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flow, net earnings, or other measures of financial performance calculated in accordance with Canadian GAAP. Funds flow from operations assists management and investors in analyzing operating performance and leverage. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Funds flow from operations was calculated as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2009** | 2008 | **2009** | 2008 |
| Cash provided by (used in) operating activities | **(797)** | (6,454) | **21,480** | (1,549) |
| Adjust for: | | | | |
| Change in non-cash operating working capital | **2,719** | 13,972 | **(16,182)** | 15,258 |
| Funds flow from operations (1) | **1,922** | 7,518 | **5,298** | 13,709 |

***Notes:***
*[1] Prior year balances recomputed to conform to current year financial statement presentation.*

***Gross margin*** – means revenue less cost of sales, which includes cost of product, field labour, and all field related operating costs. Management believes this metric provides a good measure of the operating performance at the field level. It should not be viewed as an alternative to net earnings.

***Payout ratio*** – means distributions declared as a percentage of distributable funds. Note that prior year comparative figures have been recomputed to conform to current year financial statement presentation. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" for the calculation of the payout ratio.

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

## OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

***Expansion capital*** – represents the amount of capital expenditure that has or will be incurred to grow or expand the business or would otherwise improve the productive capacity of the operations of the business.

***Maintenance capital*** – represents the amount of capital expenditure that has been or will be incurred to sustain the current level of operations.

***Market share*** – CES estimates its market share in Canada 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. The number of total active rigs for Western Canada is based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada.

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

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

| | |
|---|---|
| *Shallow wells*: | Generally less than 1,000 metres; |
| *Medium wells*: | Generally between 1,000 and 2,500 metres; |
| *Deep wells:* | Generally greater than 2,500 metres; and |
| *Horizontal wells:* | Drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each. |

# FINANCIAL HIGHLIGHTS

| *Summary Financial Results* | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| *($000's, except per unit amounts)* | **2009** | 2008 | % Change | **2009** | 2008 | % Change |
| Revenue | **19,219** | 40,850 | (53.0%) | **62,151** | 83,684 | (25.7%) |
| Gross margin (1) | **6,085** | 12,188 | (50.1%) | **17,552** | 24,716 | (29.0%) |
| Gross margin percentage of revenue (1) | **31.7%** | 29.8% | | **28.2%** | 29.5% | |
| Net earnings before taxes | **788** | 6,273 | (87.4%) | **1,883** | 10,566 | (82.2%) |
| *per unit – basic and diluted (2)* | ***0.07*** | *0.56* | *(87.5%)* | ***0.17*** | *1.04* | *(83.7%)* |
| Net earnings | **718** | 6,244 | (88.5%) | **1,658** | 10,471 | (84.2%) |
| *per unit – basic and diluted (2)* | ***0.06*** | *0.56* | *(89.3%)* | ***0.15*** | *1.03* | *(85.4%)* |
| EBITDAC (1) (3) | **2,004** | 7,630 | (73.7%) | **5,572** | 14,067 | (60.4%) |
| *per unit – basic and diluted (2)* | ***0.18*** | *0.68* | *(73.5%)* | ***0.50*** | *1.39* | *(64.0%)* |
| Funds flow from operations (1) (3) | **1,922** | 7,518 | (74.4%) | **5,298** | 13,709 | (61.4%) |
| *per unit – basic and diluted (2)* | ***0.17*** | *0.67* | *(74.6%)* | ***0.47*** | *1.35* | *(65.2%)* |
| Distributions declared | **2,683** | 2,653 | 1.1% | **7,972** | 7,253 | 9.9% |
| *per Class A Unit* | ***0.2376*** | *0.2376* | - | ***0.7128*** | *0.7128* | - |
| *per Subordinated Class B Unit* | **-** | *0.2376* | | ***0.2376*** | *0.7128* | |

***Notes:***
*[1] Refer to the "Non-GAAP Measures" for further detail.*
*[2] Includes Class A Units and Subordinated Class B Units.*
*[3] Prior year balances recomputed to conform to current year financial statement presentation.*

# OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and nine month periods ended September 30, 2009 in comparison to the three and nine month periods ended September 30, 2008 for CES are as follows:

- The Partnership generated gross revenue of $19.2 million during the third quarter of 2009, compared to $40.9 million for the three months ended September 30, 2008, a decrease of $21.6 million or 53.0% on a year-over-year basis. Year-to-date, gross revenue totalled $62.2 million compared to $83.7 million last year representing a decline of $21.5 million or 25.7% on a year-over-year basis. During Q3 2009, gross revenue on a per unit basis was $1.70 per unit compared to $3.64 per unit for Q3 2008, a decrease of 53.2%.

- CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 27% for the three months ended September 30, 2009, up from 23% for the three months ended September 30, 2008. Year-to-date, the Partnership's estimated market share in Western Canada averaged 23% as compared to 21% during 2008. The year-over-year market share increases are reflective of CES' solutions which are focused on the major resource plays along with the Partnership's service and execution. CES' operating days (refer to "Operational Definitions") in Western Canada were estimated to be 4,924 for the three month period ended September 30, 2009, a decrease of 50% from the 9,844 operating days during the third quarter of 2008. Year-to-date, operating days in Western Canada were estimated to total 13,617 compared to 22,584 during same period last year, representing a decline of 40%. Overall industry activity dropped approximately 56.3% from an average monthly rig count in the third quarter of 2008 of 403 to 176 during the second quarter of 2009 based on CAODC published monthly data for Western Canada. Year-to-date, the CAODC average monthly rig count for Western Canada has averaged 196 as compared to 357 in 2008 representing a year-over-year decline of 45.0%.

- Revenue from drilling fluids related sales of products and services in Western Canada was $15.5 million for the three months ended September 30, 2009, compared to $33.5 million for the three months ended September 30, 2008, representing a decrease of $18.0 million or 53.7%. For the nine month period ended September 30, 2009, revenue from drilling fluids related sales of products and services in Western Canada was $48.4 million as compared to $72.3 million for the nine months ended September 30, 2008, representing a decrease of $23.9 million or 33.1%.

- For the three months ended September 30, 2009, revenue generated in the US from drilling fluid sales of products and services was $0.7 million with an estimated 191 operating days (refer to "Operational Definitions") as compared to last year's revenue of $1.7 million with an estimated 212 operating days during the same period. Year-to-date, revenue generated in the US totalled $2.9 million as compared to $3.5 million in the previous year.

- During the third quarter of 2009, revenue from trucking operations totalled $1.7 million, an increase of $0.2 million from $1.5 million for the three months ended September 30, 2008. For the year-to-date period, revenue from trucking operations totalled $4.7 million as compared to $3.1 million during 2008 representing an increase of $1.6 million.

- The Clear environmental business, which was acquired by CES on June 12, 2008, generated $1.3 million of revenue for the three month period ended September 30, 2009 as compared to $4.2 million during the prior year. Revenue from Clear for the nine month period ended September 30, 2009 totalled $6.2 million. In 2008, Clear revenue from the date of acquisition (June 12, 2008) through to September 30, 2009 totalled $4.8 million.

- For the three month period ended September 30, 2009, gross margin of $6.1 million or 31.7% of revenue was generated, compared to gross margin of $12.2 million or 29.8% of revenue generated in the same period last year. Year-over-year, Q3 margins were higher primarily due to lower overall invert sales as a percentage of revenue. Invert has a lower gross margin as compared to other product margins of the Partnership. Year-to-date, the Partnership achieved a gross margin of $17.6 million or 28.2% of revenue compared to $24.7 million or 29.5% of revenue last year. Year-over-year, margins have declined on a year to date basis primarily due to decreased margins on some products, lower operating margins on US generated revenue, and an increase in revenue attributable to lower margin activities including trucking.

- For the three month period ended September 30, 2009, selling, general, and administrative costs were $4.1 million as compared to $4.5 million for the same period in 2008. Year-over-year, third quarter selling, general, and administrative costs have declined as a result of cost reductions made by the Partnership. For the nine month period ended September 30, 2009, selling, general, and administrative costs were $12.0 million as compared to $10.6 million for the same period in 2008. Selling, general, and administrative costs for the year-to-date period are higher on a year-over-year comparison as a result of the Clear business unit's inclusion for the full nine month period in the current year balances. Selling, general, and administrative costs increased by $0.6 million or 17% in Q3 2009 to $4.1 million from $3.5 million in Q2 2009 primarily as a result of higher overall sales volumes during the quarter. CES continues to monitor selling, general, and administrative costs in light of prevailing market conditions.

- EBITDAC (refer to the "Non-GAAP Measures") for the three months ended September 30, 2009 was $2.0 million as compared to $7.6 million for the three months ended September 30, 2008 representing a decrease of $5.6 million or 73.7%. For the nine month period ended September 30, 2009, EBTIDAC totalled $5.6 million as compared to $14.1 million in 2008 representing a decrease of $8.5 million or 60.4%.

- The Partnership recorded a net profit of $0.7 million for the three month period ended September 30, 2009 as compared to a net profit of $6.2 million in the prior year. The Partnership recorded net earnings per unit was $0.06 for the three months ended September 30, 2009 versus net earnings per unit of $0.56 in 2008. For the nine month period ended September 30, 2009, the Partnership recorded net earnings of $1.7 million, a decrease of 84.2% from the $10.5 million generated for the same period last year. For the nine month period, net earnings per unit were $0.15 for 2009, as compared with $1.03 per unit for the same period in 2008, representing a decrease of $0.88 or 85.4% on a per unit basis. For the quarter, net earnings were lower primarily as a result of lower overall revenues and higher non-cash expenses relating to amortization. For the year-to-date period, the decline in earnings per unit is due to a combination of lower net earnings for the period and additional units outstanding during the period as compared to 2008.

- Despite the weak market conditions, CES continued to maintain a strong balance sheet at September 30, 2009 with net working capital of $11.5 million (December 31, 2008 - $15.8 million). At September 30, 2009, CES had drawn $3.0 million on its operating facility (December 31, 2008 - $12.7 million). The maximum available draw on the $30.0 million facility at September 30, 2009, based on accounts receivable and inventory balances, was $12.5 million.

- In August, 223,054 Class A Units of the Partnership were issued as partial settlement of the earn-out liability pursuant to the Partnership's acquisition of the business assets of Clear Environmental Solutions Inc. on June 26, 2008. This represents a settlement of $1.8 million of the $2.0 million earn-out payable. The remaining $0.2 million is payable in cash contingent upon the collection of selected accounts receivable balances prior to December 31, 2009. To date, $0.038 million of the selected outstanding accounts receivable balances have been collected resulting in a confirmed minimum earn-out payable of $0.15 million of December 31, 2009.

- The Partnership has continued to maintain its monthly distributions throughout the first nine months of 2009 at its target level of $0.0792 per Class A Unit per month. A total aggregate distribution of $0.2376 per Class A Unit was paid during the third quarter. During the third quarter, the payout ratio averaged 142.3% as compared to 36.7% last year. Year-to-date, the payout ratio has averaged 151.8% as compared to 54.8% during 2008. Since the Partnership's inception in 2006, the Partnership has maintained its distribution at $0.0792 per Class A Unit per month resulting in an inception to date payout ratio of 83%. The determination of the payout ratio does not take into account changes in non-cash operating working capital items. Management and the Board of Directors review the appropriateness of distributions on a monthly basis taking into account industry conditions, growth opportunities requiring expansion capital, and management's forecast of distributable funds. Although at this time the Partnership intends to continue to make cash distributions to unitholders, these distributions are not guaranteed. (See "Funds Flow from Operations and Distributions").

# RESULTS FOR THE PERIODS

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| *($000's, except per unit amounts)* | **2009** | 2008 | $ Change | % Change |
| Revenue | **19,219** | 40,850 | (21,631) | (53.0%) |
| Cost of sales | **13,134** | 28,662 | (15,528) | (54.2%) |
| Gross margin [1] | **6,085** | 12,188 | (6,103) | (50.1%) |
| Gross margin percentage of revenue [1] | **31.7%** | 29.8% | | |
| Selling, general, and administrative expenses | **4,079** | 4,525 | (446) | (9.9%) |
| Amortization | **840** | 740 | 100 | 13.5% |
| Unit-based compensation | **147** | 509 | (362) | (71.1%) |
| Interest expense | **82** | 112 | (30) | (26.8%) |
| Foreign exchange loss | **94** | 12 | 82 | 683.3% |
| Financial derivative loss | **53** | - | 53 | N/A |
| Loss on disposal of assets | **2** | 17 | (15) | (88.2%) |
| Net earnings before taxes | **788** | 6,273 | (5,485) | (87.4%) |
| Future income tax expense | **70** | 29 | 41 | 141.4% |
| Net earnings | **718** | 6,244 | (5,526) | (88.5%) |
| *Net earnings per unit – basic and diluted* | ***0.06*** | ***0.56*** | *(0.50)* | *(89.3%)* |
| EBITDAC [1] [3] | **2,004** | 7,630 | (5,626) | (73.7%) |

| *Partnership Units Outstanding* [2] | **2009** | 2008 | % Change |
|---|---|---|---|
| End of period | **11,378,055** | 11,166,870 | 1.9% |
| Weighted average | | | |
| - basic | **11,224,912** | 11,166,513 | 0.5% |
| - diluted | **11,297,312** | 11,230,889 | 0.6% |

| | **As at** | | |
|---|---|---|---|
| *Financial Position ($000's)* | **September 30, 2009** | December 31, 2008 | % Change |
| Net working capital | **11,470** | 15,825 | (27.5%) |
| Total assets | **94,685** | 125,261 | (24.4%) |
| Long-term financial liabilities [4] | **2,589** | 3,474 | (25.5%) |
| Unitholders' equity | **72,907** | 76,978 | (5.3%) |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| *($000's, except per unit amounts)* | **2009** | 2008 | $ Change | % Change |
| Revenue | **62,151** | 83,684 | (21,533) | (25.7%) |
| Cost of sales | **44,599** | 58,968 | (14,369) | (24.4%) |
| Gross margin (1) | **17,552** | 24,716 | (7,164) | (29.0%) |
| Gross margin percentage of revenue (1) | **28.2%** | 29.5% | | |
| Selling, general, and administrative expenses | **11,981** | 10,587 | 1,394 | 13.2% |
| Amortization | **2,600** | 1,515 | 1,085 | 71.6% |
| Unit-based compensation | **703** | 1,605 | (902) | (56.2%) |
| Interest expense | **274** | 358 | (84) | (23.5%) |
| Foreign exchange (gain) loss | **27** | 60 | (33) | (55.0%) |
| Financial derivative loss | **15** | - | 15 | N/A |
| Loss on disposal of assets | **69** | 25 | 44 | 176.0% |
| Net earnings before taxes | **1,883** | 10,566 | (8,683) | (82.2%) |
| Future income tax expense | **225** | 95 | 130 | 136.8% |
| Net earnings | **1,658** | 10,471 | (8,813) | (84.2%) |
| *Net earnings per unit – basic and diluted* | ***0.15*** | ***1.03*** | *(0.88)* | *(85.4%)* |
| EBITDAC (1) (3) | **5,572** | 14,067 | (8,495) | (60.4%) |

| *Partnership Units Outstanding* (2) | **2009** | 2008 | % Change |
|---|---|---|---|
| End of period | **11,378,055** | 11,166,870 | 1.9% |
| Weighted average | | | |
| - basic | **11,163,521** | 10,129,716 | 10.2% |
| - diluted | **11,183,493** | 10,129,716 | 10.4% |

***Notes:***
*[1] Refer to the "Non-GAAP Measures" for further detail.*
*[2] Includes Class A Units and Subordinated Class B Units.*
*[3] Prior year balances recomputed to conform to current year financial statement presentation.*
*[4] Vehicle financing and committed loans excluding current portion.*

***Revenue and Operating Activities***
The Partnership generated revenue of $19.2 million for the three months ended September 30, 2009, as compared with $40.9 million for the three months ended September 30, 2008, representing a year-over-year decrease of $21.6 million or 53.0%. The significant decrease in overall revenue on a year over year basis is a reflection of the dramatic decline in drilling activity in the WCSB during the current year and is reflective of the 50.0% decrease in the Partnership's Canadian operating days during the quarter. Year-to-date, the Partnership generated revenue of $62.2 million as compared to $83.7 million during the same period last year representing a decline of $21.5 million or 25.7%.

Of the revenue generated during the second quarter of 2009, $15.5 million (2008 - $33.5 million) was generated in the Western Canada drilling fluids business; $0.7 million (2008 - $1.7 million) was generated in the US drilling fluids business; $1.3 million (2008 - $4.2) was contributed by the Clear environmental division, and $4.7 million (2008 - $3.1 million) was generated by trucking operations.

For the nine month period ended September 30, 2009, $48.4 million (2008 - $72.3 million) was generated in the Western Canada drilling fluids business; $2.9 million (2008 - $3.5 million) was generated in the US drilling fluids business; $6.2 million (2008 - $4.8 million) was contributed by the Clear environmental division (which was acquired in June 2008), and $4.7 million (2008 - $3.1 million) was generated by trucking operations.

The active CAODC monthly rig count in Western Canada averaged 176 for the three months ended September 30, 2009 based on CAODC published monthly data for Western Canada. This is a 56.3% decrease from the average rig count of 403 in the same period of 2008. Year-to-date, the CAODC, average monthly rig count for Western Canada has averaged 196 as compared to 357 in 2008 representing a year-over-year decline of 45.0%.

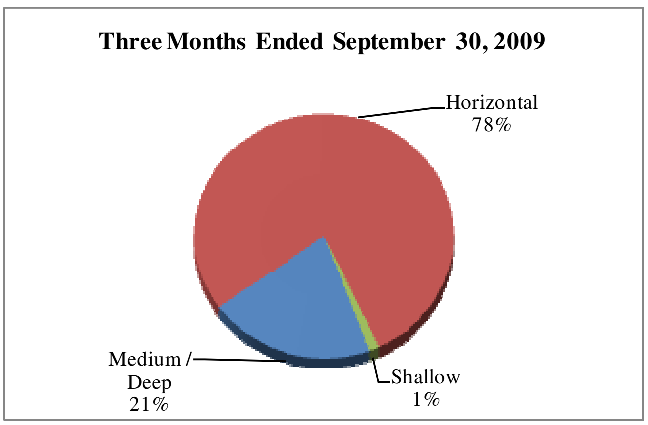
CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 27% for the three months ended September 30, 2009 from 23% for the three months ended September 30, 2008. Year-to-date, the Partnership's estimated market share in Western Canada averaged 23% compared to 21% during 2008. CES' technology focused solutions have resulted in an increased market share in Western Canada as the economics of drilling have become more difficult for operators.

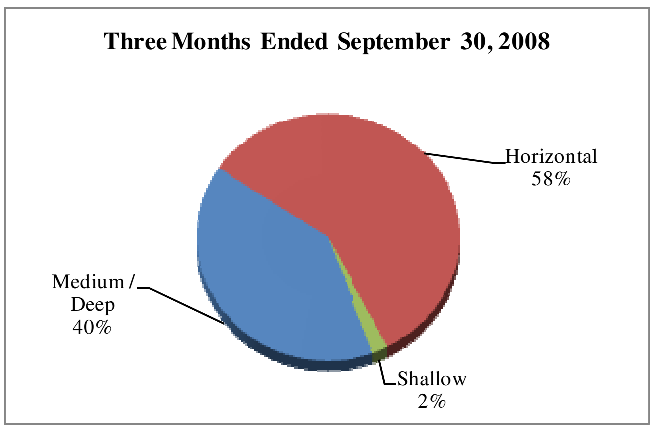
For the nine month period ended September 30, 2009, the top five customers of the Partnership accounted for approximately 38.1% (2008 – 28.1%) and totalled 40.7% in Q3 2009 (Q3 2008 – 26.4%) of total revenue. The Partnership's largest customer, a large independent exploration and production company, accounted for 13.7% of the current year-to-date revenue (Q3 2009 – 7.9%) as compared to 9.8% in 2008 (Q3 2008 – 6.8%).

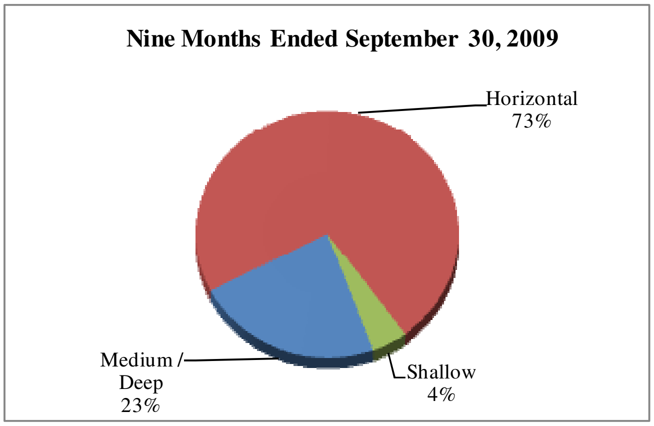
The Partnership estimated operating days (refer to "Operational Definitions") from its drilling fluids services as follows:

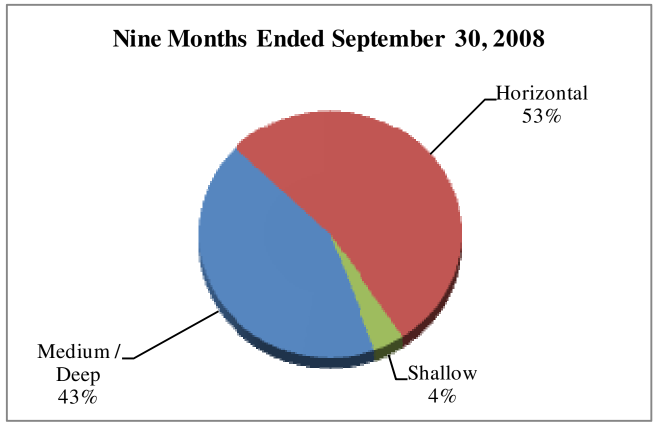
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| Canada | **4,924** | 9,844 | **13,617** | 22,584 |
| USA | **191** | 212 | **532** | 485 |
| Total Operating Days | **5,115** | 10,056 | **14,149** | 23,069 |

Overall, CES' drilling fluid business continued to focus on resource plays and in particular the medium to deep drilling and horizontal drilling. Over the last year, horizontal drilling has represented an increasing share of the Partnership's revenue composition as customers continue to apply the technique more frequently. For the three months ended September 30, 2009, medium and deep drilling represented 24% (2008 – 33%) of drilling fluids revenue and horizontal wells represented 75% (2008 – 66%) of drilling fluids revenue. For the year-to-date period, medium and deep drilling represented 23% (2008 – 43%) of drilling fluids revenue and horizontal wells represented 73% (2008 – 53%) of drilling fluids revenue. CES' experience has been that the importance to the operator of efficient drilling fluid systems increases significantly with the depth and complexity of the well drilled. The following charts illustrate the Partnership's estimated revenue from its drilling fluids business by well type in CES' targeted areas:






***Cost of Sales and Gross Margin***

Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, and all other related field costs. Margins vary due to a change in product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, trucking, environmental, etc.).

The Partnership achieved gross margin of $6.1 million or 31.7% of revenue for the three month period ended September 30, 2009 as compared to $12.2 million or 29.8% of revenue during last year. Year-over-year, Q3 margins were higher primarily due to lower overall invert sales as a percentage of revenue in the current year. Invert has a much lower gross margin as compared to other product margins of the Partnership. Year-to-date, the Partnership achieved a gross margin of $17.6 million or 28.2% of revenue compared to $24.7 million or 29.5% of revenue last year. Year-over-year, margins have decreased on a year to date basis primarily due to decreased margins on some products, lower operating margins on US generated revenue, and an increase in revenue attributable to lower margin activities including trucking. The Partnership continues to focus on maintaining margin integrity during the current slowdown and has been pursuing more effective procurement strategies and maintaining a lower overall inventory balance in order to reduce input costs.

Cost of labour has less of an impact on the Partnership's margins. Use of consultants and the variable component of compensation for employees provide the Partnership with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services. With an overall reduction in actual and forecasted activity levels in the industry as compared to last year, CES has reduced its overall head count of field staff and field consultants. CES is continuing to monitor its staffing levels in light of the current slowdown to match overall staffing to prevailing activity levels. At September 30, 2009, the headcount of field staff was 82 as compared to 76 at June 30, 2009 and 101 at December 31, 2008.

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

SG&A for the three month period ended September 30, 2009 was $4.1 million as compared to $4.5 million for the same period in 2008 representing a decrease of $0.4 million or 9.9% year-over-year. The decrease from last year is primarily attributable to lower activity levels by the Partnership and as a result of cost cutting activities undertaken by the Partnership during the year. For the nine month period ended September 30, 2009, SG&A costs were $12.0 million as compared to $10.6 million for the same period in 2008. The year-over-year increase is attributable to the full year of operations of Clear included in the current year's results for the Partnership and the new geographic expansion into the US. Selling, general, and administrative costs increased by $0.6 million or 17.1% in Q3 2009 to $4.1 million from $3.5 million in Q2 2009. The increase in SG&A expenses between the second and third quarter of 2009 is primarily due to higher sales volumes by the Partnership. The Partnership continues to be focused on overall cost control for SG&A through managing its staffing levels and streamlining operations especially in light of the continued downturn in drilling activity. The Partnership's office headcount totalled 63 at September 30, 2009 as compared to 66 as at June 30, 2009 and 70 as at December 31, 2008.

***Amortization***

Amortization of property, equipment, and intangibles totalled $0.8 million for the three month period ended September 30, 2009 in comparison to $0.7 million during 2008. For the nine months ended September 30, 2009, amortization expense totalled $2.6

million as compared to $1.5 million last year. The respective year-over-year increases are primarily attributable to the expanded operations of the Partnership compared to last year including additional trucks and trailers for the trucking division and the increase in amortization of intangible assets relating to the Partnership's acquisition of Clear.

***Unit-based Compensation***
Unit-based compensation was $0.1 million for the three months ended September 30, 2009 as compared to $0.5 million during the same period last year. For the nine months ended September 30, 2009, unit-based compensation expense totalled $0.7 million as compared to $1.6 million during the same period last year. The respective year-over-year decline is primarily attributable to the Distribution Rights Plan which was implemented in May 2008 and was being amortized over the remaining vesting periods of the unit options which ended in March 2009 and a grant under the Unit Bonus Plan during the second quarter of 2008.

***Interest Expense***
The Partnership had interest expense of $0.1 million for the three months ended September 30, 2009 which was comparable to the $0.1 million last year. For the nine months ended September 30, 2009, interest expense totalled $0.3 million as compared to $0.4 million last year. The respective year-over-year declines are attributable to a combination of lower overall interest rates and lower average borrowings on the Partnership's various debt facilities as compared to last year. Interest expense consists of interest expense on vehicle financing loans, the committed facilities, and the operating loan facility.

***Foreign Exchange Loss***
For the nine month period ended September 30, 2009, the Partnership recorded a foreign exchange loss of $0.03 million. The net foreign exchange loss primarily relates to the translation of the Partnership's US subsidiary AES Drilling Fluids, LLC's operations which uses the US Dollar as its functional currency.

***Realized and Unrealized Derivative Losses***
For the three and nine month periods ended September 30, 2009, the Partnership recorded a realized loss of $0.006 million (2008 - $Nil) relating to its foreign currency derivative contracts. For the three and nine month periods ended September 30, 2009, the Partnership recorded an unrealized gain of $0.047 million and $0.001 million respectively (2008 - $Nil and $Nil respectively) relating to its foreign currency derivative contracts. As 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 of products to be resold into the Canadian market.

| 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 |

***Future Income Taxes***
On June 22, 2007 the Government of Canada enacted legislation imposing additional income taxes upon flow-through entities including public partnerships such as CES, effective January 1, 2011. As of September 30, 2009, the Partnership estimated that $8.3 million of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2.2 million future income tax liability at September 30, 2009. This compares to a future income tax liability of $2.0 million at December 31, 2008 resulting in a future income tax expense of $0.2 million during the nine months ended September 30, 2009. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011. While the Partnership believes it will be subject to tax under the enacted legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings, and asset acquisitions and dispositions. At September 30, 2009, the Partnership continued to record a valuation allowance provision with respect to its US subsidiary relating to the non-capital tax loss balances as a result of the uncertainty on the timing of realization of these non-capital tax loss balances at this early stage of operations in the US.

***Net Working Capital***
The Partnership's net working capital at September 30, 2009 totalled \$11.5 million as compared to \$15.8 million at December 31, 2008. The decrease of \$4.3 million in net working capital is a result of the lower level of activity at the end of the third quarter as compared to December 31, 2008 as a result of lower overall industry activity and the seasonality of the Partnership's operations.

***Total Assets***
Total assets of CES declined from \$125.3 million at December 31, 2008 to \$94.7 million at September 30, 2009. The decline of \$30.6 million or 27.5% is primarily attributable to the overall decline in activity and a result of seasonality of the Partnership's operations. Notable items relating to the \$30.6 million decline include: (i) decline in accounts receivable of \$26.9 million as a result of collection of outstanding balances and lower overall activity; (ii) \$3.2 million reduction in inventory balances through usage in operations during the first three quarters of the year and through more diligent management of the Partnership's overall inventory levels; and (iii) the decrease in intangible assets of \$0.8 million which included \$0.5 million of amortization of customer relationships and \$0.4 million relating to the return of the Drilling Fluid Technology (refer to "Liquidity and Capital Resources – Unitholders' Equity" for additional information).

***Long-Term Financial Liabilities***
The Partnership had long-term financial liabilities totalling \$2.6 million at September 30, 2009 compared to \$3.5 million at December 31, 2008, for a reduction of \$0.9 million during the year to date period. During the three month period ended September 30, 2009, long-term scheduled debt repayments debt repayments totalling \$0.3 million were made. At September 30, 2009, long-term financial liabilities was comprised of vehicle financing loans totalling \$1.4 million and committed facilities totalling \$2.3 million, net of the current portion of long-term debt of \$1.1 million.

***Unitholder's Equity***
Unitholders' equity declined from \$77.0 million at December 31, 2008 to \$72.9 million at September 30, 2009. The change in unitholder's equity during the period is primarily attributable to \$1.7 million in net earnings by the Partnership, \$1.7 million relating to the issuance of Class A Units of the Partnership, and \$0.6 million in contributed surplus as a result of unit-based compensation. This is offset by total distributions of \$8.0 million made by the Partnership during the nine month period ended September 30, 2009.

***Goodwill Impairment***
At December 31, 2008, the Partnership completed its annual goodwill impairment test. Management estimated the fair value of the Partnership's drilling fluids and environmental businesses using a number of industry accepted valuation methodologies including discounted future cash flows, comparable industry valuation multiples, recent trading activity and capital market pricing of the Partnership's units. At December 31, 2008, management concluded that the carrying value of goodwill was less than the estimated fair value and therefore no reduction in the carrying value was necessary. The Partnership continues to monitor the carrying value of goodwill. At September 30, 2009, management re-reviewed its December 31, 2008 valuation and assumptions and concluded that the carrying value was still less than the estimated fair value and therefore no reduction in the carrying value was recognized.

## SEGMENTED RESULTS
The Partnership has two primary business segments: 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 WCSB and the US, with an emphasis on servicing the ongoing major resource plays including tight gas reservoirs, oil sands and other heavy oil and bitumen extraction methods, and other horizontal drilling applications. 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. The Environmental Services segment is comprised of Clear, the Partnership's environmental division, which was acquired on June 12, 2008.

***Drilling Fluids Segment***
For the three months ended September 30, 2009, revenue from the Drilling Fluids segment totalled \$17.9 million compared to \$36.6 million for the three months ended September 30, 2008 representing a decrease of \$18.7 million or 51.2%. Year-to-date,

revenue from the Drilling Fluids segment totalled $56.0 million as compared to $78.9 million last year representing a decline of $22.9 million on a year-over-year basis.

CES' estimated market share (refer to "Operational Definitions") in Western Canada increased to 27% for the three months ended September 30, 2009 which is up from 23% for the three months ended September 30, 2008. Year-to-date, the Partnership's estimated market share in Western Canada averaged 23% as compared to 21% during 2008. CES operating days (refer to "Operational Definitions") in Western Canada were estimated to be 4,924 for the three month period ended September 30, 2009, a decrease of 50% from the 9,844 operating days during the third quarter of 2008. Year-to-date, operating days in Western Canada were estimated to total 13,617 compared to 22,584 during same period last year, representing a decline of 40%. Overall industry activity dropped approximately 56.3% from an average rig count in the second quarter of 2008 of 403 to 176 during the second quarter of 2009 based on CAODC published monthly data for Western Canada. Year-to-date, the CAODC average monthly rig count for Western Canada have averaged 196 as compared to 357 in 2008 representing a year-over-year decline of 45.0%.

For the three months ended September 30, 2009, revenue generated in the US from drilling fluids related sales of products and services was $0.7 million with an estimated 191 operating days (refer to "Operational Definitions") as compared to revenue of $1.7 million with an estimated 212 operating days for same period last year. Year-to-date, revenue generated in the US totals $2.9 million as compared to $3.5 million last year.

Gross margin for the Drilling Fluids segment was $5.6 million or 31.1% for the three months ended September 30, 2009, which increased slightly, on a percentage basis, from the 29.5% gross margin generated in 2008. Year-to-date, the Partnership has achieved a gross margin of 27.2% compared to 29.3% last year. The decrease in margin is primarily due to lower margins received on revenues generated in the US.

***Environmental Services Segment***
Revenue from the Environmental Services segment was $1.3 million for the three month period ended September 30, 2009 as compared to $4.2 million during last year. During the third quarter, gross margin for the Environmental segment was $0.5 million or 39.9% of revenue compared to last year's gross margin of $1.4 million or 32.7%. Year-to-date, revenue for 2009 has totalled $6.2 million for the Environmental Services segment. Year-to-date revenue for Clear during 2008 was $4.8 million, however, Clear was acquired in June 2008 and therefore prior year-to-date figures represent less than four months of operations. Year-to-date, the gross margin from the Environmental Services segment has averaged 37.3% for 2009. During 2009, the Environmental Services has been negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. The Environmental Services division has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling.

| | Drilling Fluids | | Environmental Services | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Three Months Ended September 30, | |
| *Segmented Information ($000's)* | **2009** | 2008 | **2009** | 2008 |
| Revenue | **17,890** | 36,629 | **1,329** | 4,221 |
| Gross margin | **5,555** | 10,807 | **530** | 1,381 |
| Net earnings before taxes | **709** | 5,454 | **79** | 819 |
| EBITDAC (1) (3) | **1,914** | 6,791 | **90** | 839 |

| | Drilling Fluids | | Environmental Services (2) | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| *Segmented Information ($000's)* | **2009** | 2008 | **2009** | 2008 |
| Revenue | **55,993** | 78,930 | **6,158** | 4,754 |
| Gross margin | **15,253** | 23,139 | **2,299** | 1,577 |
| Net earnings before taxes | **1,107** | 9,633 | **776** | 933 |
| EBITDAC (1) (3) | **4,757** | 13,111 | **815** | 956 |

***Notes:***
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *The Environmental Services segment is comprised of the Partnership's environmental division, Clear Environmental Solutions, which was acquired on June 12, 2008 and as such comparative figures for 2008 represent the shortened period.*
[3] *Prior year balances recomputed to conform to current year financial statement presentation.*

# QUARTERLY FINANCIAL SUMMARY

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000's, except per unit amounts)* | **Sep 30, 2009** | Jun 30, 2009 | Mar 31, 2009 | Dec 31, 2008 |
| Revenue | **19,219** | 12,634 | 30,298 | 41,385 |
| Gross margin [1] | **6,085** | 3,422 | 8,045 | 11,980 |
| Net earnings (loss) | **718** | (1,214) | 2,154 | 4,715 |
| *per unit – basic and diluted* [2] | ***0.06*** | *(0.11)* | *0.19* | *0.42* |
| EBITDAC [1] [3] | **2,004** | (52) | 3,620 | 6,563 |
| *per unit – basic and diluted* [2] | ***0.18*** | - | *0.33* | *0.59* |
| Funds flow from operations [1] [3] | **1,922** | (101) | 3,477 | 6,335 |
| *per unit – basic and diluted* [2] | ***0.17*** | *(0.01)* | *0.31* | *0.57* |
| Distributions declared | **2,683** | 2,647 | 2,642 | 2,653 |
| *per Class A Unit* | ***0.2376*** | *0.2376* | *0.2376* | *0.2376* |
| *per Subordinated Class B Unit* | **-** | - | *0.2376* | *0.2376* |
| Partnership Units Outstanding [2] | | | | |
| End of period | **11,378,055** | 11,140,301 | 11,119,801 | 11,169,801 |
| Weighted average – basic | **11,224,912** | 11,140,301 | 11,124,245 | 11,167,794 |
| Weighted average – diluted | **11,297,312** | 11,140,301 | 11,144,745 | 11,167,794 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000's, except per unit amounts)* | Sept 30, 2008 | Jun 30, 2008 | Mar 31, 2008 | Dec 31, 2007 |
| Revenue | 40,850 | 14,560 | 28,274 | 18,600 |
| Gross margin [1] | 12,188 | 3,559 | 8,969 | 5,773 |
| Net earnings (loss) | 6,244 | (1,055) | 5,282 | 3,292 |
| *per unit – basic and diluted* [2] | *0.56* | *(0.11)* | *0.56* | *0.35* |
| EBITDAC [1] [3] | 7,630 | 571 | 5,866 | 3,503 |
| *per unit – basic and diluted* [2] | *0.68* | *0.06* | *0.61* | *0.37* |
| Funds flow from operations [1] [3] | 7,518 | 474 | 5,717 | 3,450 |
| *per unit – basic and diluted* [2] | *0.67* | *0.05* | *0.61* | *0.37* |
| Distributions declared | 2,653 | 2,371 | 2,229 | 2,229 |
| *per Class A Unit* | *0.2376* | *0.2376* | *0.2376* | *0.2376* |
| *per Subordinated Class B Unit* | *0.2376* | *0.2376* | *0.2376* | *0.2376* |
| Partnership Units Outstanding [2] | | | | |
| End of period | 11,166,870 | 11,166,370 | 9,380,946 | 9,380,946 |
| Weighted average – basic | 11,166,513 | 9,822,070 | 9,380,946 | 9,380,946 |
| Weighted average – diluted | 11,230,889 | 9,822,070 | 9,382,281 | 9,380,946 |

***Notes:***
*[1] Refer to the "Non-GAAP Measures" for further detail.*
*[2] Includes Class A Units and Subordinated Class B Units.*
*[3] Prior year balances recomputed to conform to current year financial statement presentation.*

***Seasonality of Operations***
The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable

resulting in government road bans which severely restrict activity in the second quarter until equipment is moved for summer drilling programs in the third quarter. These seasonal trends typically lead to quarterly fluctuations in operating results and working capital requirements, which should be considered in any quarter over quarter analysis of performance.

# LIQUIDITY AND CAPITAL RESOURCES

The Partnership had net working capital of $11.5 million at September 30, 2009 compared to $15.8 million at December 31, 2008. The decline of $4.3 million was primarily due to a combination of the seasonality of the Partnership's operations and overall decline in industry activity levels at September 30, 2009.

As previously disclosed, during the second quarter, the Partnership completed its annual review of its existing credit facilities. The Partnership was successfully able to renew, and increase, its overall debt facilities. In line with prevailing market conditions, the renewed facilities included slightly higher overall borrowing interest rates compared to last year when the facilities were originally placed. The higher overall borrowing rates on these facilities are reflective of tighter overall global credit market conditions. The covenants, terms, and conditions of the facilities remain substantially similar to the previous terms.

The Partnership has a revolving demand loan facility with a maximum available draw of $30.0 million. The maximum draw available under the facility is subject to the value of certain accounts receivable and inventory balances. As at September 30, 2009, the Partnership had total bank indebtedness drawn on the facility of $3.0 million compared to $12.7 million at December 31, 2008. The maximum available draw on the facility was $12.5 million at September 30, 2009 and is based on the Partnership's outstanding accounts receivable and inventory balances. The facility bears interest at the bank's prime rate plus 1.25% and has a standby rate of 0.35% on any unused portion of the facility.

The Partnership has two committed loan facilities:

1. A $1.6 million non-revolving committed loan facility. As of September 30, 2009, there was $1.6 million outstanding (December 31, 2008 - $1.7 million) on the loan. The loan is repayable in fixed monthly principal payments of $9,725 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 by two additional five year periods at its discretion.
2. A $0.8 million non-revolving committed loan facility. As of September 30, 2009, there was $0.7 million outstanding (December 31, 2008 - $0.9 million) on the loan. The loan is repayable over five years in fixed monthly principal payments of $16,667 plus interest at the bank's prime rate of interest plus 1.40%.

The Partnership also has a $2.0 million non-revolving demand loan facility to finance new and existing property and equipment. The facility bears interest at the bank's prime rate of interest plus 1.40%. Any draws made on the facility are to be repaid in equal instalments over a period of 48 months plus interest at the bank's prime rate of interest plus 1.40%. As of September 30, 2009, and as of the date of this MD&A, this facility was undrawn.

The debt facilities, including the operating line, are 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.

These facilities impose the following financial covenants on the Partnership:

- 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 prior written consent of the lender. As at September 30, 2009, and as of the date of this MD&A, the Partnership was in compliance with the terms and covenants of its lending agreements.

Generally, credit and equity markets have continued to improve during the third quarter. Should the Partnership's lender be unable to, or choose not to fund, it would impair the Partnership's ability to operate until alternative sources of financing were obtained, as access to operating line funding is critical to the effective execution of the Partnership's business plan. To date, the Partnership has not experienced any funding issues under its debt facilities.

The Partnership's vehicle financing loans are secured by each related vehicle and incur interest at rates ranging from 0% to 13% and have remaining terms ranging from October 2009 to December 2012. At September 30, 2009, outstanding vehicle loans totalled $1.4 million compared to $2.3 million at December 31, 2008.

At the time of the release of this MD&A, management is satisfied that the Partnership has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. The Partnership continually assesses its requirements for capital on an on-going basis, however, there can be no guarantee that the Partnership will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. The recent turmoil in the financial markets has negatively impacted the availability of both credit and equity in the marketplace. Although financial markets have improved in recent months, in the event that it is required, it may be difficult to issue additional equity or increase credit capacity and that the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions. In addition, despite the improvements in crude oil prices, natural gas prices continue to remain relatively weak resulting in a significant overall reduction in actual and forecasted levels of drilling activity in the WCSB and the United States. This in turn has reduced the overall demand for the Partnership's products and services, and may continue for the foreseeable future. As a result, there has been a greater emphasis on evaluating credit capacity, credit counterparties, and liquidity by the Partnership to ensure its ability to be able to meet its ongoing commitments and obligations.

***Funds Flow from Operations and Distributions***

CES calculated distributable funds based on funds flow from operations (refer to the "Non-GAAP Measures") and the payout ratio (refer to the "Non-GAAP Measures") based on the level of distributions declared as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2009** | 2008 | **2009** | 2008 |
| Cash flow from operating activities | **(797)** | (6,454) | **21,480** | (1,549) |
| Change in non-cash operating working capital (2) | **2,719** | 13,972 | **(16,182)** | 15,258 |
| Funds flow from operations (1) (3) | **1,922** | 7,518 | **5,298** | 13,709 |
| Maintenance capital (4) | **(37)** | (294) | **(45)** | (472) |
| Distributable funds (1) (3) | **1,885** | 7,224 | **5,253** | 13,237 |
| Distributions declared | **2,683** | 2,653 | **7,972** | 7,253 |
| Payout ratio (1) (3) | **142.3%** | 36.7% | **151.8%** | 54.8% |

***Notes:***

*1 Refer to the "Non-GAAP Measures" for further detail.*
*2 See components of change in non-cash operating working capital balances below.*
*3 Prior year balances recomputed to conform to current year financial statement presentation.*
*4 Refer to the "Operational Definitions" for further detail.*

The changes in non-cash working capital from operating activities 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) |

Distributable funds were $1.9 million for the three months ended September 30, 2009 as compared to $7.2 million for the same period in 2008. For the nine month period ended September 30, 2009, distributable funds were $5.3 million versus $13.2 million for the same period in 2008. The year-over-year declines are representative of the lower overall activity during 2009 as compared to 2008. During the three months ended September 30, 2009, the Partnership declared monthly distributions of $0.0792 per Class A Unit for a total quarterly distribution of $0.2376 per unit.

During the third quarter, the payout ratio (refer to the "Non-GAAP Measures") was 142.3% compared to 36.7% last year. For the year-to-date period, the payout ratio has averaged 151.8% in 2009 as compared to 54.8% in 2008. Throughout the course of the year, the actual payout ratio varies with the seasonality of the Partnership's funds flow from operations. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Distributions are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either the seasonality of the business or changes in the level of working capital, distributions may be funded through the Partnership's surplus cash reserves or by accessing the Partnership's credit facility. Since the Partnership's inception in 2006, the Partnership has maintained its distribution at $0.0792 per Class A Unit per month resulting in an inception to date payout ratio of 83%.

Management and the Board of Directors review the appropriateness of distributions on a monthly basis taking into account current and anticipated industry conditions and, particularly, growth opportunities requiring expansion capital and management's forecast of distributable funds.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2009** | 2008 | **2009** | 2008 |
| Cash flow from operating activities | **(797)** | (6,454) | **21,480** | (1,549) |
| Distributions declared | **(2,683)** | (2,653) | **(7,972)** | (7,253) |
| Excess (shortfall) of cash flows from operating activities over distributions declared | **(3,480)** | (9,107) | **13,508** | (8,802) |
| Net earnings (loss) | **718** | 6,244 | **1,658** | 10,471 |
| Distributions declared | **(2,683)** | (2,653) | **(7,972)** | (7,253) |
| Excess (shortfall) of net earnings over distributions declared | **(1,965)** | 3,591 | **(6,314)** | 3,218 |

During 2009, the excess of cash flows from operating activities over distributions declared in the nine month periods ended September 30, 2009 is primarily a result of a focus by the Partnership to reduce non-cash working capital notably through reducing its overall inventory balances and through the focused collection of accounts receivable balances. There was a shortfall of net earnings over distributions declared for both the three and nine month periods ended September 30, 2009 as a result of lower overall activities compared to last year. This has resulted in an increase in unitholder's equity deficit during the period.

Although at this time the Partnership intends to continue to make cash distributions to unitholders, these distributions are not guaranteed. In addition, future expansion investments and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement, of external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash distributions to unitholders may be reduced.

Subsequent to September 30, 2009, CES declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on October 31, 2009 for the month ended October 31, 2009.

***Investing Activities***

For the nine month period ended September 30, 2009, cash flow from investing activities totalled a cash outflow of $2.3 million compared to a cash outflow of $12.2 million during the nine months ended September 30, 2008. During the three months ended September 30, 2009, net cash outflows from investing activities totalled $1.4 million compared to $3.4 million for the three months ended September 30, 2008. Included in the prior year's balances is the cash portion of Partnership's acquisition of Clear Environmental Solutions' business assets for $7.5 million and the purchases of truck and field equipment.

During the three months ended September 30, 2009, the Partnership had $1.5 million in capital additions on property and equipment as compared to $3.4 million (net of $0.4 million financing) for the three months ended September 30, 2008. For the three months ended September 30, 2009, the Partnership had $0.04 million of additions related to maintenance capital additions and $1.4 million of additions related to expansion capital additions. Notable additions during the three month period ended September 30, 2009 included $0.34 million on completion of construction of the Partnership's Carlyle, Saskatchewan truck shop and $0.98 million relating to the purchase of four trucks and trailers for use in the Partnership's trucking operations in Saskatchewan. Details of investment made in property and equipment are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2009** | 2008 | **2009** | 2008 |
| Expansion capital | **1,425** | 3,576 | **2,876** | 5,291 |
| Maintenance capital | **37** | 294 | **44** | 472 |
| Total investment in property and equipment | **1,462** | 3,870 | **2,920** | 5,763 |
| Vehicle financing | **-** | (445) | **(102)** | (1,252) |
| Capital expenditures | **1,462** | 3,425 | **2,818** | 4,511 |
| Change in non-cash investing working capital | **(32)** | 6 | **(144)** | 162 |
| Cash used for investment in property and equipment | **1,430** | 3,431 | **2,674** | 4,673 |

In general, the long-term capital investments required for the Partnership to execute its business plan are not significant, and the majority of capital expenditures are made at the discretion of the Partnership based on the timing and the expected overall return on the investment. At the time of the release of this MD&A, the total capital expenditures planned for the remainder of the current year is approximately $0.6 million.

***Financing Activities***

For the nine month period ended September 30, 2009, cash flow from financing activities totalled a cash outflow of $19.2 million compared to a cash inflow of $13.7 million during the nine months ended September 30, 2008. During the three months ended September 30, 2009, cash flow from financing activities totalled a cash inflow of $0.1 million compared to a cash inflow of $9.6 million during the comparative prior year period. For the three month period ended September 30, 2009, the Partnership repaid $0.3 million of its long-term debt balances, made distributions to unitholders totalling $2.7 million, and drew on its bank indebtedness credit facility by $3.0 million.

***Unitholders' Equity***

During the three month period ended September 30, 2009, 223,054 Class A Units were issued pursuant to $1.8 million of the earn-out payable in connection with the acquisition of the business assets of Clear Environmental Solutions Inc. on June 12, 2008. In addition, 14,700 Class A Units were issued pursuant to exercises made under the Unit Option Plan and the Distribution Rights Plan.

As of September 30, 2009, there was a total of 11,378,055 Class A Units outstanding and nil Subordinated Class B Units outstanding. As of the date of this MD&A, there is a total of 11,380,439 Class A Units outstanding and nil Subordinated Class B Units outstanding.

***Unit-based Compensation***

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 remained 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 (the "Unit Option Plan"). At September 30, 2009, a total of 715,500 (December 31, 2008 - 725,500) Unit Options were outstanding at a weighted average exercise price of $8.71. As at September 30, 2009 a total of 519,334 Unit Options were exercisable at a weighted average price of $9.04. As of the date of this MD&A, there were 713,500 Unit Options outstanding. There were no Unit Option grants during the third quarter.

*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. At September 30, 2009, a total of 114,574 (December 31, 2008 - 46,812) Class A Units were accumulated in the Distribution Right accounts of holders of an aggregate of 715,500 Distribution Rights (December 31, 2008 - 725,500). At the date of this MD&A, there was 120,662 Class A Units accumulated in the accounts Distribution Rights holders. Distribution Rights vest and are redeemable as determined by the Board of Directors at the time of grant. To the extent a grant of Distribution Rights is associated with a grant of Unit Options, the Distribution Rights will vest and become redeemable on the same schedule and to the extent that the corresponding Unit Option vests and becomes exercisable.

*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. In certain circumstances Class A Units may be granted and reserved for issuance subject to the recipient achieving conditions as determined by the Board of Directors of the General Partner. During the three month period ended September 30, 2009, 20,500 Class A Units which had been previously granted were issued pursuant to Unit Bonus Plan. As of September 30, 2009, a total of 96,000 Class A Units had been issued under the Unit Bonus Plan. As of September 30, 2009, and as of the date of this MD&A, there were 29,000 Class A Units available for future grants and nil outstanding Class A Units reserved for issuance.

***Commitments / Contractual Obligations***

At September 30, 2009, the Partnership had the following additional commitments not included as liabilities on the Partnership's balance sheet at September 30, 2009:

| *$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** |

As of the date of this document, given its current financial position, the Partnership anticipates it will be able to meet these commitments as necessary.

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 $2.0 million. The consideration payable under the agreement was determined by subtracting $2.4 million 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 ending June 30, 2009 and multiplying the result by a four times multiple. On August 28, 2009, $1.8 million of this amount was satisfied through the issuance of 223,054 Class A Units of the Partnership. The Partnership has accrued a liability of $0.2 million relating to the remaining earn-out payable contingent upon the collection of selected accounts receivable balances prior to December 31, 2009. To date, $0.038 million of the selected outstanding accounts receivable balances have been collected resulting in a confirmed minimum earn-out payable of $0.15 million at December 31, 2009. The earn-out payable outstanding at December 31, 2009 will be settled in cash.

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CES prepares its consolidated financial statements in accordance with Canadian GAAP. The policies used by the Partnership for the three and nine month periods ended September 30, 2009 remain consistent with those used for the year ended December 31, 2008. Details of the Partnership's significant accounting policies are found in note three of the Partnership's audited financial statements for the year ended December 31, 2008. There were no new accounting policies announced during the period presented which would be expected to materially impact the Partnership's consolidated financial statements.

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 consolidated financial statements and the reported amounts of revenue and expense for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it was management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' consolidated financial statements were the impairment of goodwill, the amortization of property, equipment and intangible assets, future income taxes, and unit-based compensation.

## CHANGES IN ACCOUNTING POLICIES

The corresponding unaudited interim consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting principles and methods of computation as the Partnership's audited financial statements for the period ended December 31, 2008, except as noted below. These corresponding 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 earnings. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statement of earnings 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 transactions outstanding 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.

*International Financial Reporting Standards (IFRS)*
On February 13, 2008, the AcSB confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current Generally Accepted Accounting Principles for all publicly accountable profit oriented enterprises. The Partnership has commenced planning the transition from the current Canadian GAAP to IFRS. The project team is led by senior finance representatives to oversee and manage the transition. As necessary, other representatives from other areas of the organization will be included as part of the team as well as external advisors to assist with the project.

The project consists of three phases: initial assessment, detailed assessment and design, and implementation. The first phase will involve the completion of an initial review of the major differences between current Canadian GAAP and IFRS and their impact to the existing account balances of the Partnership, development of a project timeline, and a review of IFRS 1 transition exemptions. The detailed assessment and design phase will involve completing a comprehensive analysis of the impact of the IFRS differences identified in the initial assessment. The implementation phase will involve executing the required changes to business processes, financial systems, accounting policies, disclosure controls, and internal controls over financial reporting.

Currently, the Partnership is actively completing phase two, the detailed assessment and design phase, and is expected to complete its detailed assessment during the fourth fiscal quarter. Regular reporting is to be provided to the Partnership's senior executive management team and to the Audit Committee of the Board of Directors. At this time, the quantitative impact on the Partnership's financial statements has not yet been completed.

## RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

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, natural gas, and natural gas liquids prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or adverse change in government regulations could have a significant negative impact on exploration and development drilling activity in North America and in turn demand for the Partnership's products and services. There was a dramatic reduction in crude oil and natural gas prices during the last half of 2008. While crude oil prices have since recovered and appear to have stabilized , natural gas prices remain relatively weak compared to recent historical standards and continue to experience significant volatility. This along with reduced access to capital, especially for junior and intermediate producers, has resulted in a decline in industry drilling activity levels in the WCSB and the United States compared to the previous year. Overall industry activity is expected to remain relatively weak for the rest of the 2009 and through the first half of 2010. This is expected to reduce overall activity levels for the Partnership and the resulting cash flows achieved over this period in comparison to previous years.

The oil and natural gas drilling season is affected by weather. The industry is generally more active in the WCSB during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather, traditionally in the spring and summer, can hamper the movement of drilling rigs which has a direct impact upon the Partnership's ability to generate revenue. Conversely, a longer colder winter as well as a dry spring and summer strengthen drilling operations and therefore could serve to enhance the Partnership's revenue generation opportunities. Mitigation of weather risk is difficult.

The ability of the Partnership to sell and expand its services will also depend upon the ability to attract qualified personnel as needed. Over the past few years, the demand for skilled oilfield employees and drilling fluid technicians has been high and the supply has been 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:

- attracting 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 health, safety, and environmental responsibilities seriously and has instituted standards, policies, and procedures to address these risks. In addition, the Partnership maintains insurance policies with respect to its operations providing coverage of all of what it considers to be material insurable risks.

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other geopolitical factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in CES' trade accounts receivable since they are predominantly with companies operating in the WCSB, as the growth in the United States market has, to date, been limited. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, and reviewing and actively following up on older accounts. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those for which have already been provided for. However, if low commodity prices and tight capital markets prevail, there is a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk.

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. As an example, during the current year, changes have been announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These recent changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

The turmoil in the financial markets over the past year has impacted the availability of both credit and equity financing in the marketplace. Despite recent improvements during the last two quarters, markets remain relatively tight and the current market conditions indicate that, in the event that it is required, it may be difficult to issue additional equity or increase credit capacity without significant costs at this time. Should the Partnership's lender be unable to, or choose not to fund, it would impair the Partnership's ability to operate, as access to operating line funds is critical to the effective execution of the business. The Partnership has not experienced any funding issues under its debt facility to date.

Reference should be made to the Partnership's Annual Information Form dated March 4, 2009 for the period ended December 31, 2008, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of the Partnership which is available on the Partnership's SEDAR profile at www.sedar.com.

# OUTLOOK

Although crude oil prices have rebounded off their lows in early 2009 and have stabilized during the last two quarters, natural gas prices continue to remain relatively weak compared to recent years. Overall drilling activity in both the WCSB and the US has dropped considerably on a year-over-year basis and despite improved market share statistics in the WCSB, the Partnership has also experienced a significant decline in overall activity levels compared to last year. Industry forecasts for drilling activity for the upcoming winter drilling season continue to remain relatively weak compared to recent history and expected to remain weak during the first half of 2010 in both the WCSB and the United States. The lower drilling activity has and will continue to result in a decrease in the Partnership's overall activity levels through the remainder of 2009 and into the first half of 2010 which will negatively impact the Partnership's earnings and resulting cash flows over that term. Low industry activity levels, weakness in natural gas prices, uncertainty with global economic growth, and continuity uncertainty and reduced access to the debt and equity markets, increases the importance of maintaining strong financial flexibility. As a result, the Partnership intends to closely manage its distribution levels and capital expenditures in order to minimize increases in debt levels and preserve its balance sheet strength and liquidity position.

Despite the uncertain times facing the North American drilling market, CES' exposure the key resource plays and to the growth in the number of horizontal wells being drilled bodes well for the Partnership. These wells require complex drilling fluids to best manage down hole dynamics, drilling times and costs and our unique products like Seal-AX™ and Liquidrill™/Tarbreak, combined with our concerted focus on providing superior service, positions CES well in this environment. CES believes that its value proposition in the horizontal drilling, oil sands drilling, and deeper natural gas drilling, will continue to position it as the premium independent drilling fluids provider in the market.

Management believes that CES' technologies have global application and the Partnership will continue to pursue opportunities that align our service offerings with the needs of our customers. We are confident that our technologies will be embraced as we build out our operations. In particular management believes CES's presence in the Rockies and Mid-Continent regions of the US offer significant growth opportunities. These markets present us with potential incremental growth and future access into other basins in the United States, as we see increased potential in the Marcellus shale play in the Northeast US. Our strategy remains to utilize our patented and proprietary technologies and local personnel to create market share in the US market.

The Clear Environmental Solutions and EQUAL Transport divisions continue to complement CES' core drilling fluids business. During 2009, the Environmental Services has been negatively impacted as a result of the significant decline in shallow natural gas focused drilling in the WCSB. The Environmental Services division has focused on expanding its operational base and is pursuing opportunities in the oil sands and horizontal drilling.

In addition, CES will continue to invest in research and development and technology advancements in the drilling fluids market. CES will also provide integrated business solutions to drive margins and remain competitive for our customers.

# CORPORATE GOVERNANCE

For information regarding the corporate governance policies and practices of the Partnership and the General Partner, the Reader should refer to CES' 2008 Annual Report, CES' Annual Information Form dated March 4, 2009 in respect of the year ended December 31, 2008, and CES' Information Circular in respect to the June 26, 2009 Annual General and Special Meeting of unitholders each of which are available on the Partnership's SEDAR profile at www.sedar.com.

# ADDITIONAL INFORMATION

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

***Partnership Information***

**BOARD OF DIRECTORS**
Kyle D. Kitagawa, Chairman [1]

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

**www.CanadianEnergyServices.com**

**REGISTRAR & TRANSFER AGENT**
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