Canadian Energy
SERVICES L.P.

Three Months Ended September 30, 2007

Q3 INTERIM REPORT - HIGHLIGHTS

Canadian Energy Services L.P. ("CES" or the "Partnership") is pleased to report on its financial and operating results for the three months ended September 30, 2007.

"Our third quarter results highlighted CES' emergence as an industry leader in the drilling fluids sector. Our customer base has transitioned as we have demonstrated our ability to provide technology based solutions to key operators in the basin. Our revenue growth of 10% over last year, in a market where industry activity levels were down significantly, reflects the impact of both growth in our customer base and market share." said Tom Simons, the President and Chief Executive Officer of Canadian Energy Services Inc., the general partner of CES. "We were pleased that our growth and profit improvement initiatives undertaken over the last year have resulted in operational and financial success for CES that allows us to continue to grow as a market leader. We are, however, concerned over the impact that the proposed Alberta royalty regime will have on our industry. We will continue to stay focused on providing value to our customers."

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

Financial Results	Three Months Ended Sep 30, **2007**	2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[1]
($000's except per unit amounts)				
Revenue	**16,104**	14,619	**41,820**	29,380
Gross margin[2]	**5,337**	4,194	**13,302**	8,278
Net earnings before income taxes	**2,966**	2,500	**6,240**	4,454
per unit – basic and diluted[3]	**0.32**	0.27	**0.66**	0.49
Net earnings	**3,037**	2,500	**4,009**	4,454
per unit – basic and diluted[3]	**0.32**	0.27	**0.43**	0.49
EBITDAC[2]	**3,218**	2,596	**6,950**	4,635
Funds flow from operations[2]	**3,223**	2,635	**6,960**	4,724
per unit – basic and diluted[3]	**0.34**	0.29	**0.74**	0.52
Distributions declared	**2,229**	2,217	**6,687**	5,046
per Class A Unit	**0.2376**	0.2376	**0.7128**	0.5544
per Subordinated Class B Unit	**0.2376**	0.2376	**0.7128**	0.5544

Financial Position	**Sep 30, 2007**	Dec 31, 2006
($000's)		
Working capital	**7,717**	10,920
Total assets	**71,406**	74,910
Long-term financial liabilities[4]	**1,440**	616
Unitholders' equity	**51,931**	54,494

Partnership Units Outstanding[3]	Three Months Ended Sep 30, **2007**	2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[1]
End of period	**9,380,946**	9,380,946	**9,380,946**	9,380,946
Weighted average - basic	**9,380,946**	9,244,805	**9,380,946**	9,053,470
- diluted	**9,390,442**	9,244,898	**9,386,627**	9,053,549

Notes:

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

[2] Refer to the "Non-GAAP Measures" on page 4 for further detail.

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

[4] Vehicle financing loans and term loan excluding current portions.

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

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2006 Annual Report, including the audited consolidated financial statements and notes thereto, of Canadian Energy Services L.P. ("CES" or the "Partnership") as at and for the period ended December 31, 2006 and the unaudited consolidated financial statements and notes thereto of the Partnership for the three months ended September 30, 2007 and 2006, the nine month period ended September 30, 2007 and the 213-day period ended September 30, 2006. The information contained in this MD&A was prepared up to and including November 5, 2007 and incorporates all relevant considerations to that date.

Certain statements in this MD&A may constitute "forward-looking information" which involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Partnership, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", and other similar terminology. This information reflects the Partnership's current expectations regarding future events and operating performance and speaks only as of the date of the MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. Although the forward-looking information contained in this MD&A is based upon what management of the Partnership believes are reasonable assumptions, the Partnership cannot assure investors that actual results will be consistent with this forward-looking information. This forward-looking information is provided as of the date of this MD&A, and, subject to applicable securities laws, the Partnership assumes no obligation to update or revise such information to reflect new events, or circumstances.

In particular, this MD&A contains forward-looking information pertaining to the following: future estimates as to distribution levels; capital expenditure programs for oil and natural gas drilling; supply and demand for drilling fluid systems and industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers and equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada and the United States; development of new technology; acquisition of trucking capacity; and competitive conditions.

The Partnership's actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States and internationally; demand for oilfield services for drilling and completion of oil and natural gas wells; volatility in market prices for oil, natural gas and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions, 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; fluctuations in foreign exchange and interest rates and the other factors considered under "Risk Factors" in the Partnership's Annual Information Form for the period ended December 31, 2006 and "Risks and Uncertainties" in this MD&A.

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

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights of the three month period ended September 30, 2007 for CES were:

- The Partnership generated revenue of $16.1 million in the quarter, an increase of 10% over the same quarter last year, despite a 34% drop in total industry rig count. CES' estimated market share for the third quarter was 16% compared to the estimated 12% market share in the third quarter of 2006.

- Gross margin of $5.3 million or 33% of revenue was generated for the third quarter which, as a percentage of revenue, was higher than the 29% gross margin generated in the third quarter of 2006. The increase in margin was primarily due to the impact of improved procurement strategies.

- Selling, general and administrative costs were $2.1 million in the third quarter, an increase of $521,000 from the third quarter in 2006. This increase largely related to successfully attracting experienced and qualified key personnel over the year and an increase in commissions payable on higher sales revenues.

- CES generated a net profit of $3.0 million in the third quarter, an increase of 21% over last year.

- The Partnership continued to maintain its level of distributions and declared monthly distributions of $0.0792 per unit to Class A unitholders for the three months ended September 30, 2007. A quarterly distribution of $0.2376 was declared to the Subordinated Class B unitholders of record on September 30, 2007. The target payout ratio (refer to "Non-GAAP Measures" on page 4) on an annualized basis continues to be 80% of distributable funds. The actual payout ratio for the third quarter was 73% and it was 101% for the nine months ended September 30, 2007. The actual payout ratio for the twelve month period ended September 30, 2007 was 96%. Management continues to believe the annual target level of distributions is appropriate for the Partnership's business given the relatively low level of capital required to maintain and grow the business. The Board of Directors continues to monitor the distributions in light of industry conditions and, particularly, the potential adverse impact of the royalty changes recently announced by the Alberta government.

- Working capital was $7.7 million at September 30, 2007 and CES' long-term debt, representing vehicle financing loans and a term loan, was $1.4 million. CES continues to maintain a strong balance sheet despite current industry activity lows.

OVERVIEW OF THE PARTNERSHIP FORMATION AND THE CORPORATE STRUCTURE

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

The General Partner was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is authorized to carry on the business of the Partnership and has full power and exclusive authority to administer, manage, control, and operate the business of the Partnership. The Partnership reimburses the General Partner for all direct costs and expenses incurred in the performance of those duties.

The Partnership commenced business operations on March 2, 2006 when it acquired the businesses of two private drilling fluids companies. CES designs and implements drilling fluid systems for the oil and gas industry, in particular, relating to drilling medium to deep vertical and directional wells and horizontal wells in the Western Canadian Sedimentary Basin ("WCSB").

NON-GAAP MEASURES

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

Distributable funds – means funds flow from operations less maintenance capital. See the definition of funds flow from operations below and the definition of maintenance capital under "Operational Definitions" on page 5. Distributable funds is a measure used by management and investors to analyze the amount of funds available to distribute to unitholders before consideration of funds required for growth purposes. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 10 for the calculation of distributable funds.

EBITDAC – means net earnings before interest, taxes, amortization, loss on disposal of assets, goodwill impairment and unit-based compensation. EBITDAC is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC was calculated as follows:

	Three Months Ended Sep 30,		**Nine Months Ended**	213-day Period Ended
	2007	2006	**Sep 30, 2007**	Sep 30, 2006[1]
($000's)				
Net earnings	**3,037**	2,500	**4,009**	4,454
Add back (deduct):				
Interest income, net of interest expense	**(5)**	(39)	**(10)**	(89)
Future income tax expense (recovery)	**(71)**	-	**2,231**	-
Amortization of property and equipment	**224**	107	**578**	204
Loss on disposal of assets	**2**	-	**27**	-
Unit-based compensation	**31**	28	**115**	66
EBITDAC	**3,218**	2,596	**6,950**	4,635

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

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

	Three Months Ended Sep 30,		**Nine Months Ended**	213-day Period Ended
	2007	2006	**Sep 30, 2007**	Sep 30, 2006[1]
($000's)				
Cash provided by (used in) operating activities	**172**	(479)	**4,770**	6,744
Adjust for:				
Change in non-cash operating working capital	**3,051**	3,114	**2,190**	(2,020)
Funds flow from operations	**3,223**	2,635	**6,960**	4,724

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

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

Payout ratio – means distributions declared as a percentage of distributable funds. Refer to "Liquidity and Capital Resources – Funds Flow from Operations and Distributions" on page 10 for the calculation of the payout ratio.

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

OPERATIONAL DEFINITIONS

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

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

Market share **–** CES estimates its market share by comparing, on a semi-weekly basis, active rigs where the Partnership was contracted to provide services to the total active rigs for Western Canada. Active rigs, in both cases, included operating rigs, rigs on standby (i.e. waiting on weather) and rigs that were moving. Total active rigs for Western Canada are based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada.

Operating days – CES estimates its operating days, which are revenue generating days, by multiplying the average number of active rigs where the Partnership was contracted to provide services by the number of days in the period.

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

shallow wells:	generally less than 1,000 metres;
medium wells:	generally between 1,000 and 2,500 metres;
deep wells:	generally greater than 2,500 metres; and
horizontal wells:	drilled vertically then horizontally, often with multiple lateral legs, reaching out 500 to 1,500 metres each.

RESULTS FOR THE PERIODS

	Three Months Ended Sep 30, **2007**	2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[1]
($000's, except per unit amounts)				
Revenue	**16,104**	14,619	**41,820**	29,380
Cost of sales	**10,767**	10,425	**28,518**	21,102
Gross margin[2]	**5,337**	4,194	**13,302**	8,278
% of revenue	**33%**	29%	**32%**	28%
Selling, general and administrative expenses	**2,119**	1,598	**6,352**	3,643
Amortization of property and equipment	**224**	107	**578**	204
Unit-based compensation	**31**	28	**115**	66
Loss on disposal of assets	**2**	-	**27**	-
Interest income, net of interest expense	**(5)**	(39)	**(10)**	(89)
Net earnings before taxes	**2,966**	2,500	**6,240**	4,454
Future income tax expense (recovery)	**(71)**	-	**2,231**	-
Net earnings	**3,037**	2,500	**4,009**	4,454
per unit – basic and diluted	**0.32**	0.27	**0.43**	0.49

Notes:
[1] From commencement of operations on March 2, 2006.
[2] Refer to the "Non-GAAP Measures" on page 4 for further detail.

Revenue and Operating Activities

Revenue for the three month period ended September 30, 2007 was $16.1 million, an increase of $1.5 million or 10% over the same quarter last year despite a significant drop in industry drilling activity.

The active rig count in Western Canada averaged 336 for the third quarter in 2007 based on CAODC published monthly data for Western Canada. This was a 34% drop from the average rig count of 512 in the third quarter in 2006. The level of industry activity in the third quarter is the lowest it has been in the last five years. As of October 30, 2007, there were 328 active rigs reported by CAODC.

CES estimated its market share in the third quarter of 2007 at 16%, slightly lower from the second quarter of 2007 at 17%, but well ahead of the third quarter last year which was estimated to be 12%.

The top five customers of the Partnership accounted for approximately 31% of revenue in the third quarter of 2007, with the largest customer, a major exploration and production company, at 9%. In the third quarter of 2006, the Partnership's top five customers accounted for 31% of revenue, with the largest customer at 8%.

The Partnership estimated operating days as follows:

	Three Months Ended Sep 30,		**Nine Months Ended**	213-day Period Ended
	2007	2006	**Sep 30, 2007**	Sep 30, 2006[1]
Operating days	**4,968**	4,968	**14,623**	9,164

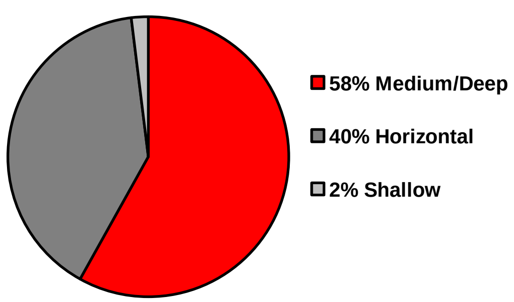
Note:
[1]From commencement of operations on March 2, 2006.

CES' total estimated operating days in the third quarter were the same as the third quarter last year. The specific area of operations and well type impacts both operating days and revenue generated per operating day. The Partnership's Moose Mountain Mud division generated a significant portion of the third quarter revenue in 2007 with the high levels of horizontal drilling activity in the Bakken formation in Saskatchewan. In addition, medium to deep drilling increased significantly in the third quarter of 2007.

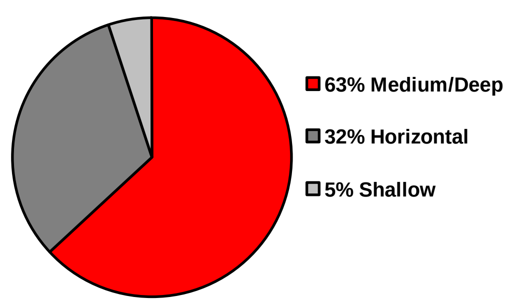
Overall, CES continued to focus on medium to deep drilling and horizontal drilling which collectively represented approximately 98% of revenue for the third quarter in 2007. CES' experience has been that the importance to the operator of drilling fluid systems' increases significantly with the depth and complexity of the well drilled.

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

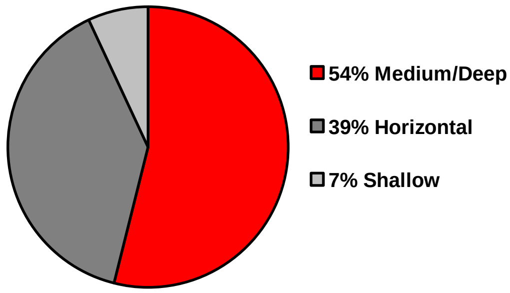
Three Months Ended September 30, 2007



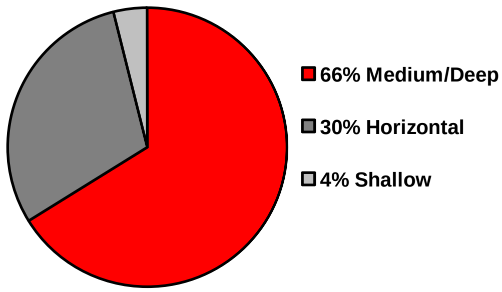
Three Months Ended September 30, 2006



Nine Months Ended September 30, 2007



213-day Period Ended September 30, 2006



Cost of Sales and Gross Margin

Gross margin of $5.3 million, or 33% of revenue, was generated for the third quarter in 2007. Gross margin was 29% of revenue for the third quarter in 2006. Gross margin represents the profit earned on revenue after deducting the cost of products, field labour and all related field costs. Margins can vary due to a change in product mix.

Margins have increased from the third quarter in 2006 primarily due to the impact of cost effective procurement strategies that CES had implemented over the past few months. The most significant cost of field operations is product costs. Initiatives undertaken with key suppliers in the first quarter to lower costs have started to realize benefits. CES has achieved a two percentage point margin improvement in the third quarter of 2007 in comparison to the third quarter of 2006 as a result of these initiatives. The Partnership will stay focused on product procurement opportunities.

Cost of labour has less of an impact on margins as activity increases. Use of consultants and the variable component of compensation for employees provides a means to manage seasonal activity swings. Despite the reduced levels of industry activity from last year, CES has maintained its level of operating days and increased its investment in personnel. CES field staff have increased from an average headcount of 27 in the third quarter of 2006 to 38 in 2007, a 41% increase. The increased field staff was required to accommodate the sustained increase in market share growth. CES is committed to the continued recruiting, training and retention of quality field personnel to ensure quality customer service at the well site.

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

SG&A for the third quarter in 2007 was $2.1 million, an increase of $521,000 (33%) from the third quarter in 2006. This increase primarily related to higher compensation costs including sales commissions.

Higher compensation costs follow an increased employee headcount over last year. CES had an average of 27 employees included in SG&A in the third quarter of 2006. This increased 19% to 32 in the third quarter of 2007. Key positions were recruited over the last year in sales, finance and technical support.

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

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

Other Expense (Income) Items

Amortization of property and equipment was $224,000 for the third quarter in 2007 and $107,000 for the same period in 2006. The increase largely related to trucks which are amortized on a straight-line basis over 5 years.

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

Loss on disposal of assets of $2,000 in the third quarter of 2007 related to the disposal of two field vehicles.

Interest expense, net of interest income, consists of interest expense on vehicle financing loans less interest earned on short-term investments. The term loan was drawn at the end of the third quarter of 2007 and did not result in interest expense for the quarter.

Future Income Taxes

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

Based on its assets and liabilities as at September 30, 2007, the Partnership has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse. Currently, the Partnership has net deductible temporary differences of $2,476,000, which principally relate to remaining tax pools attributable to initial public offering underwriting costs that were originally netted with unitholders' capital for accounting purposes. The Partnership estimates that these net deductible temporary differences will reverse at a nil tax rate.

The Partnership estimates that $7,083,000 net taxable temporary differences will reverse after January 1, 2011, resulting in a $2,231,000 future income tax liability. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

As the legislation gives rise to a change in the Partnership's estimated future income tax liability in the period, the recognition of the liability is accounted for prospectively and $2,231,000 of future income tax expense has been recorded for the nine month period ended September 30, 2007. This charge is a non-cash item and does not impact the ability of the Partnership to carry on its business, generate its cash flows or pay distributions.

While the Partnership believes it will be subject to tax under the new legislation, the tax rate on temporary difference reversals after 2010 may change in future periods. As the legislation is new, future administrative interpretations of the legislation could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on the Partnership's future operating results, financings and asset acquisitions and dispositions. (Refer to "Risks and Uncertainties and New Developments - Federal Corporate Tax Rate Changes" on page 13.)

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended Sep 30, 2007	Three Months Ended Jun 30, 2007	Three Months Ended Mar 31, 2007	Three Months Ended Dec 31, 2006
Financial Results				
($000's except per unit amounts)				
Revenue	**16,104**	6,198	19,518	16,633
Gross margin[2]	**5,337**	1,444	6,521	4,906
Net earnings (loss)	**3,037**	(2,955)	3,927	(31,263)
per unit – basic and diluted[3]	**0.32**	(0.32)	0.42	(3.33)
EBITDAC[2]	**3,218**	(396)	4,128	2,886
Funds flow from operations[2]	**3,223**	(400)	4,137	2,917
per unit – basic and diluted[3]	**0.34**	(0.04)	0.44	0.31
Distributions declared	**2,229**	2,229	2,229	2,229
per Class A Unit	**0.2376**	0.2376	0.2376	0.2376
per Subordinated Class B Unit	**0.2376**	0.2376	0.2376	0.2376
Partnership Units Outstanding[3]				
End of period	**9,380,946**	9,380,946	9,380,946	9,380,946
Weighted average – basic	**9,380,946**	9,380,946	9,380,946	9,380,946
Weighted average – diluted	**9,390,442**	9,380,946	9,380,946	9,380,946

	Three Months Ended Sep 30, 2006	Three Months Ended Jun 30, 2006	30-day Period Ended Mar 31, 2006[1]
Financial Results			
($000's except per unit amounts)			
Revenue	14,619	7,839	6,922
Gross margin[2]	4,194	2,315	1,769
Net earnings (loss)	2,500	675	1,279
per unit – basic and diluted[3]	0.27	0.08	0.14
EBITDAC[2]	2,596	737	1,302
Funds flow from operations[2]	2,635	778	1,311
per unit – basic and diluted[3]	0.29	0.09	0.15
Distributions declared	2,217	2,124	705
per Class A Unit	0.2376	0.2376	0.0792
per Subordinated Class B Unit	0.2376	0.2376	0.0792
Partnership Units Outstanding[3]			
End of period	9,380,946	9,005,946	8,905,946
Weighted average – basic	9,244,805	8,907,045	8,905,946
Weighted average – diluted	9,244,898	8,912,539	8,905,946

Notes:
[1] *From commencement of operations on March 2, 2006.*
[2] *Refer to the "Non-GAAP Measures" on page 4 for further detail.*
[3] *Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 11). Between September 30, 2007 and November 5, 2007 there has been no change in the number of Partnership Units outstanding.*

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, the Partnership had bank indebtedness, consisting of outstanding cheques in excess of cash, of $390,000. Working capital was positive at $7.7 million.

CES has a revolving demand facility to borrow up to $5.0 million. This facility is for general operating purposes and to manage cash flows during seasonal fluctuations. At September 30, 2007, there was no amount drawn on this facility. As at November 1, 2007 there was $2.1 million drawn. The operating facility has been used to fund the construction of the Edson, Alberta facility (see "Financing Activities" on page 11).

Long-term debt, including current portion, at September 30, 2007 was $2,304,000 representing vehicle financing loans of $1,304,000 and a three year term loan for $1,000,000. The term loan was established the end of September 2007 with a commercial bank to finance the equipment purchased to date for the Edson, Alberta trucking operation. The term loan has a fixed interest rate of 6.75% and is payable over 36 months at fixed principal payments of $28,000 per month plus interest. The term loan is secured by a general security agreement containing a first ranking security interest over all personal property of the Partnership and the General Partner. Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet these long-term payment obligations.

Funds Flow from Operations and Distributions

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

	Three Months Ended Sep 30, **2007**	2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[3]
($000's)				
Cash flow from operating activities	**172**	(479)	**4,770**	6,744
Adjust for:				
Change in non-cash operating working capital	**3,051**	3,114	**2,190**	(2,020)
Funds flow from operations[1]	**3,223**	2,635	**6,960**	4,724
Less: Maintenance capital[2]	**150**	245	**366**	692
Distributable funds[1]	**3,073**	2,390	**6,594**	4,032
Distributions declared	**2,229**	2,217	**6,687**	5,046
Payout ratio[1]	**73%**	93%	**101%**	125%

Notes:
[1] *Refer to the "Non-GAAP Measures" on page 4 for further detail.*
[2] *Refer to the "Operational Definitions" on page 5 for further detail.*
[3] *From commencement of operations on March 2, 2006.*

Distributable funds were $3.1 million for the three months ended September 30, 2007. The Partnership declared monthly distributions of $0.0792 per Class A Common limited partnership unit ("Class A Unit") during the period and a quarterly distribution of $0.2376 per Class B subordinated limited partnership unit ("Subordinated Class B Unit") to Subordinated Class B unitholders of record on September 30, 2007. Distributions on the Subordinated Class B Units are paid on a quarterly basis, subject to the Partnership achieving certain distribution targets on the Class A Units. The distributions paid per unit on the Class A Units and the Subordinated Class B Units met the per unit targets as set out in the Partnership's long form prospectus dated February 21, 2006 in connection with the Partnership's initial public offering.

The target payout ratio on an annualized basis continues to be 80% of distributable funds. The actual payout ratio for the third quarter of 2007 was 73% and it was 101% for the nine months ended September 30, 2007. The actual payout ratio for the twelve month period ended September 30, 2007 was 96%. The actual payout ratio varies with the seasonality of the Partnership's cash flow. Periods of higher activity will cause the payout ratio to decrease, and likewise, lower activity periods will cause the payout ratio to increase. Distributions are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either of the seasonality of the business or changes in the level of working capital, distributions could be funded through the credit facility.

Management continues to believe that the annual target level of 80% of distributable funds is appropriate for the Partnership's business given the relatively low level of capital required to maintain and grow the business. The Board of Directors continues to monitor the distributions in light of industry conditions and, particularly, the potential adverse impact of the royalty changes recently announced by the Alberta government.

Subsequent to September 30, 2007, CES declared monthly distributions of $0.0792 per Class A Unit to unitholders of record on October 31, 2007 for the month ended October 31, 2007.

Investing Activities

The Partnership incurred $2.9 million in capital expenditures during the third quarter of 2007 of which $2.7 million was for expansion capital and $150,000 was for maintenance capital. See "Operational Definitions" on page 5 for an explanation of expansion versus maintenance capital.

	Three Months Ended Sep 30, **2007**	2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[1]
($000's)				
Expansion capital	**2,731**	227	**4,047**	487
Maintenance capital	**150**	245	**366**	692
Total capital expenditures	**2,881**	472	**4,413**	1,179
Less:				
Accrued liabilities related to expenditures	**402**	-	**402**	-
Vehicle financing	**334**	252	**676**	524
Cash used for purchase of property and equipment	**2,145**	220	**3,335**	655

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

The expansion capital expenditures in the third quarter of 2007 were primarily related to the construction of the trucking, warehousing and tank farm facility in Edson, Alberta ($1.4 million), the purchase of three trucks and two tank trailers for the Edson, Alberta operations ($778,000) and vehicles for additional field technicians required to service the growth in activity ($189,000). Maintenance capital expenditures incurred in the third quarter of 2007 were primarily related to replacement vehicles for field technicians. Vehicles purchased were financed by third parties and no actual cash outlay was incurred.

Capital expenditures in the third quarter of 2006 were primarily for field vehicles.

CES anticipates that the total investment in land, buildings, tank farm, trucks and related equipment for the Edson, Alberta operations will be approximately $4.5 million, of which $3.2 million has been spent to the end of September 30, 2007. This facility and trucking operations are being operated under the Partnership's new division EQUAL Transport which was established in the second quarter of 2007. The facility is expected to be completed mid-November 2007.

Financing Activities

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

Financing of the construction of the Edson, Alberta facility has been managed through cash flow and the operating line of credit. CES is currently working with a commercial lender to secure additional term financing once the facility is completed and to finance the additional equipment being purchased for EQUAL Transport.

Unitholders' Equity

No additional units were issued during the three month period ending September 30, 2007.

On March 2, 2007, one half of the 706,890 Class A Units that were being held in escrow were released from escrow. The remaining escrowed units are to be released on March 2, 2008.

Unit Option Plan

The Partnership may provide additional compensation to employees, officers and directors of the General Partner and certain other service providers by issuing options to acquire Class A Units under the Partnership's unit option plan (the "Unit Option Plan"). As at September 30, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 243,095 Class A Units remain available for option grants. Options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire five years after the grant.

Commitments / Contractual Obligations

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

($000's)	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Long-term debt, including current portion	$ 864	$ 833	$ 545	$ 52	$ 10	$ 2,304
Purchase of equipment	347	-	-	-	-	347
Office rent	344	-	-	-	-	344
Construction of buildings	124	-	-	-	-	124
Operating leases	56	17	-	-	-	73
Total	$ 1,735	$ 850	$ 545	$ 52	$ 10	$ 3,192

The Partnership has commitments to purchase equipment for the EQUAL Transport division totalling $347,000. Payments are expected to be made over the next few months. The Partnership has also entered into a contract for the construction of two buildings for the EQUAL Transport division of which $124,000 is remaining to be incurred.

Given its current financial condition, the Partnership anticipates it will be able to meet these commitments as necessary.

OFF-BALANCE SHEET ARRANGEMENTS

The Partnership does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties during the third quarter of 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Comprehensive Income, Financial Instruments and Hedging

On January 1, 2007, the Partnership adopted the following CICA Handbook Sections: Section 1530 – Comprehensive Income; Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, in accordance with the transitional provisions in each respective section.

Upon adoption of these standards, the Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities; and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

The Partnership has classified its financial instruments as follows: cash – held for trading; accounts receivable and prepaid – loans and receivables; and accounts payable and accrued liabilities, distributions payable and long-term debt – other financial liabilities.

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations and, as a result, the adoption of Section 3865 has no impact on the financial statements for this period.

Accounting Changes

On January 1, 2007, the Partnership adopted CICA Handbook Section 1506 – Accounting Changes. This standard requires that when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and the expected impact of the new standard in the period of initial application.

At September 30, 2007, the Partnership has not adopted CICA Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation. Section 1535 requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments. These sections are to be applied for periods beginning on or after October 1, 2007. The Partnership intends to adopt these standards in the financial statements for the interim period ended March 31, 2008. The impact of the initial application of these standards is not expected to be significant.

New Accounting Developments

Management of the Partnership is not aware of any recent accounting pronouncements or developments, other than as noted above, that will affect the Partnership's consolidated financial statements. Management will continue to monitor and assess the impact of accounting pronouncements on the Partnership's consolidated financial statements as they become available.

RISKS AND UNCERTAINITIES AND NEW DEVELOPMENTS

The business of the Partnership is subject to certain risks and uncertainties. For a more thorough discussion of such risks and uncertainties, the Reader should refer to CES' 2006 Annual Report and the Annual Information Form in respect of the period ended December 31, 2006, both of which are available on the Partnership's SEDAR profile at www.sedar.com.

Alberta Royalty Rate Changes

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta announced a new royalty regime that will introduce new royalties for conventional oil, natural gas and oilsands that are linked to price and production levels. The new royalty regime is expected to be implemented effective January 1, 2009.

The implementation of the proposed changes to the royalty regime in Alberta are subject to certain risks and uncertainties. The significant changes to the royalty regime require new legislation, changes to existing legislation and regulation and development of software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof.

The changes to the royalty regime may adversely affect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, particularly medium/deep natural gas and high productivity conventional oil, which could negatively impact the business, operations, cash flow and distributions of CES. At the current time it is not possible to predict what the impact on CES will be.

Federal Corporate Tax Rate Changes

On October 30, 2007 the Government of Canada presented an Economic Statement that proposed new legislation that would reduce federal corporate income tax rates effective January 1, 2008 with further reductions being phased in through January 1, 2012. The Partnership believes that these rate reductions will also apply to the recently enacted income taxes imposed upon flow-through entities including public partnerships such as itself. These proposed changes to the federal tax rates, if enacted, would reduce management's estimate of the Partnership's future income tax liability.

CORPORATE GOVERNANCE

For information regarding corporate governance, the Reader should refer to CES' 2006 Annual Report, the Annual Information Form and the Information Circular and Proxy statement dated April 9, 2007, all of which are available on the Partnership's SEDAR profile at www.sedar.com.

OUTLOOK

Management of the Partnership believes that it can continue to grow its business with its technology based service offerings, geographic diversification and broad customer base, despite the uncertainty under the current challenging market conditions and the impact of the changes announced to the Alberta royalty regime. The Partnership expects the lower overall drilling activity to continue through the 2007/2008 winter drilling season due to soft natural gas prices. In addition, there will likely be changes to the allocation of capital in the WCSB as the exploration and production companies analyze the implications of the proposed Alberta royalty regime on natural gas drilling, including its impact on deep basin incentives. The ability of our customers to commit to capital spending will depend, in large part, on the degree of clarity of the revised royalties.

We continue to be encouraged by the level of horizontal drilling activity in the Bakken light oil resource play in Saskatchewan, which is considered to be one of the most significant plays in the WCSB at the moment, and horizontal drilling activity in the Canadian oilsands. These remain significant and growing markets where we expect CES' technology will drive the growth of our business.

The Partnership will strive to continue to build market penetration for Seal-AX™ (Patent Pending) and additional activity with other leading technologies such as Liquidrill™. CES believes that its value proposition in drilling for deeper natural gas, oilsands and conventional horizontal oil wells positions itself as the premium fluids provider in the market.

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

Consolidated Balance Sheets

(stated in thousands of dollars)(unaudited)

	Sep 30, 2007	Dec 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	**$ -**	$ 4,194
Accounts receivable	**19,173**	23,733
Inventory	**3,946**	2,613
Prepaid expenses	**402**	180
	23,521	30,720
Property and equipment (note 4)	**5,919**	2,224
Goodwill (note 5)	**41,966**	41,966
	$ 71,406	$ 74,910
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 3)	**$ 390**	$ -
Accounts payable and accrued liabilities	**13,466**	17,832
Distributions payable	**1,084**	1,084
Deferred revenue	**-**	427
Current portion of long-term debt (note 6)	**864**	457
	15,804	19,800
Long-term debt (note 6)	**1,440**	616
Future income tax liability (note 7)	**2,231**	-
	3,671	616
Unitholders' equity		
Class A Units (note 8)	**66,959**	66,959
Subordinated Class B Units (note 8)	**21,514**	21,514
Contributed surplus	**220**	105
Deficit	**(36,762)**	(34,084)
	51,931	54,494
	$ 71,406	$ 74,910

Commitments (note 12)
Subsequent Event (note 15)

APPROVED ON BEHALF OF THE BOARD:

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

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

Consolidated Statements of Operations and Deficit
(stated in thousands of dollars) (unaudited)

	Three Months Ended Sep 30, 2007	Three Months Ended Sep 30, 2006	**Nine Months Ended Sep 30, 2007**	213-day Period Ended Sep 30, 2006[1]
Revenue	**$ 16,104**	$ 14,619	**$ 41,820**	$ 29,380
Cost of sales	**10,767**	10,425	**28,518**	21,102
Gross margin	**5,337**	4,194	**13,302**	8,278
Expenses				
Selling, general and administrative expenses	**2,119**	1,598	**6,352**	3,643
Amortization of property and equipment	**224**	107	**578**	204
Unit-based compensation (note 9)	**31**	28	**115**	66
Loss on disposal of assets (note 4)	**2**	-	**27**	-
Interest income, net of interest expense	**(5)**	(39)	**(10)**	(89)
	2,371	1,694	**7,062**	3,824
Net earnings for the period before taxes	**2,966**	2,500	**6,240**	4,454
Future income tax expense (recovery) (note 7)	**(71)**	-	**2,231**	-
Net earnings for the period	**3,037**	2,500	**4,009**	4,454
Other comprehensive income	-	-	-	-
Comprehensive net earnings for the period	**3,037**	2,500	**4,009**	4,454
Deficit, beginning of period	**(37,570)**	(875)	**(34,084)**	-
Unitholders' distributions declared (note 11)	**(2,229)**	(2,217)	**(6,687)**	(5,046)
Deficit, end of period	**$ (36,762)**	$ (592)	**$ (36,762)**	$ (592)
Net earnings per unit (note 10)				
Basic and diluted	**$ 0.32**	$ 0.27	**$ 0.43**	$ 0.49

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

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

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

	Three Months Ended Sep 30, 2007	Three Months Ended Sep 30, 2006	Nine Months Ended Sep 30, 2007	213-day Period Ended Sep 30, 2006[1]
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net earnings for the period	**$ 3,037**	$ 2,500	**$ 4,009**	$ 4,454
Items not involving cash:				
Amortization of property and equipment	**224**	107	**578**	204
Unit-based compensation	**31**	28	**115**	66
Loss on disposal of assets	**2**	-	**27**	-
Future income tax expense (recovery)	**(71)**	-	**2,231**	-
Change in non-cash operating working capital (note 14)	**(3,051)**	(3,114)	**(2,190)**	2,020
	172	(479)	**4,770**	6,744
FINANCING ACTIVITIES:				
Units issued for cash, net of issue costs	**-**	-	**-**	53,603
Repayment of long-term debt	**(137)**	(68)	**(445)**	(134)
Increase in long-term debt	**1,000**	-	**1,000**	-
Distributions to unitholders	**(2,229)**	(2,187)	**(6,687)**	(3,962)
	(1,366)	(2,255)	**(6,132)**	49,507
INVESTING ACTIVITIES:				
Repayment of acquisition notes	**-**	-	**-**	(50,602)
Repayment of promissory notes	**-**	(500)	**-**	(500)
Purchase of property and equipment	**(2,145)**	(220)	**(3,335)**	(655)
Proceeds on disposal of fixed assets	**36**	-	**113**	-
	(2,109)	(720)	**(3,222)**	(51,757)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,303)**	(3,454)	**(4,584)**	4,494
Cash and cash equivalents, beginning of period	**2,913**	7,948	**4,194**	-
Cash and cash equivalents (bank indebtedness), end of period (note 3)	**$ (390)**	$ 4,494	**$ (390)**	$ 4,494

SUPPLEMENTARY CASH FLOW DISCLOSURE

Interest paid	**$ 3**	$ -	**$ 8**	$ -
Taxes paid	**$ -**	$ -	**$ -**	$ -

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

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

1. The Limited Partnership

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

On March 2, 2006, the Partnership commenced business operations when it acquired the businesses of two private drilling fluids companies. Consideration for the acquisition was comprised of acquisition notes, the issuance of Class A Common limited partnership units ("Class A Units") and Class B subordinated limited partnership units ("Subordinated Class B Units"). On March 2, 2006 the acquisition notes were repaid with the proceeds from the Partnership's initial public offering ("IPO") of 5,893,866 Class A Units for aggregate gross proceeds of $58.9 million and net proceeds of $53.6 million after deducting underwriting commissions and certain other expenses of the IPO.

Canadian Energy Services Inc., the general partner of the Partnership (the "General Partner"), was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is authorized to carry on the business of the Partnership and has full power and exclusive authority to administer, manage, control and operate the business of the Partnership. The Partnership reimburses the General Partner for all direct costs and expenses incurred in the performance of those duties.

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

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by management of the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting principles and methods of computation as the Partnership's audited financial statements for the period ended December 31, 2006, except for as noted below. These interim financial statements do not conform in all respects to the requirements of GAAP for annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto in the Partnership's Annual Report for the period ended December 31, 2006.

(b) Comprehensive Income, Financial Instruments and Hedging

On January 1, 2007, the Partnership adopted the following CICA Handbook Sections: Section 1530 – Comprehensive Income; Section 3855 – Financial Instruments – Recognition and Measurement; Section 3861 – Financial Instruments – Disclosure and Presentation, and Section 3865 – Hedges, in accordance with the transitional provisions in each respective section.

Upon adoption of these standards, the Partnership has classified all financial instruments into one of the following five categories: 1) loans and receivables; 2) assets held to maturity; 3) assets available for sale; 4) other financial liabilities; and 5) held for trading. Financial instruments classified as held for trading are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in net income. Financial instruments classified as available for sale are measured at fair value and any gains or losses resulting from a change in the fair value during the period are recognized in other comprehensive income, until realized through disposal or impairment. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income.

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

The Partnership has classified its financial instruments as follows: cash – held for trading; accounts receivable and prepaid – loans and receivables; and accounts payable and accrued liabilities, distributions payable and long-term debt – other financial liabilities.

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations and, as a result, the adoption of Section 3865 has no impact on the financial statements for this period.

(c) Accounting Changes

On January 1, 2007, the Partnership adopted CICA Handbook Section 1506 – Accounting Changes. This standard requires that when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and the expected impact of the new standard in the period of initial application.

At September 30, 2007, the Partnership has not adopted CICA Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures; and Section 3863 – Financial Instruments – Presentation. Section 1535 requires the entity to disclose information about its objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Section 3862 requires the entity to disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks and Section 3863 provides guidance on the presentation of financial instruments. These sections are to be applied for periods beginning on or after October 1, 2007. The Partnership intends to adopt these standards in the financial statements for the interim period ended March 31, 2008. The impact of the initial application of these standards is not expected to be significant.

3. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

	Sep 30, 2007	Dec 31, 2006
Cash (bank indebtedness)	$ (390)	$ 194
Temporary investments	-	4,000
Cash (bank indebtedness)	$ (390)	$ 4,194

4. Property and Equipment

	Cost	Accumulated Amortization	Net Book Value Sep 30, 2007	Net Book Value Dec 31, 2006
Computer equipment and software	$ 391	$ 143	$ 248	$ 304
Vehicles	1,787	434	1,353	1,165
Trucks	1,041	45	996	118
Field equipment	755	109	646	248
Furniture and fixtures	125	35	90	108
Buildings	1,385	38	1,347	237
Tanks	404	4	400	35
Land	839	-	839	9
	$ 6,727	$ 808	$ 5,919	$ 2,224

Included above, but not yet being amortized, are buildings under construction with a cost of $1,113,000. Amortization will begin when construction is substantially complete and the facilities become available for productive commercial use.

During the quarter ended September 30, 2007 the Partnership disposed of two field vehicles with a total cost of $77,000 and a total net book value of $38,000. Proceeds realized on disposition were $36,000 resulting in a loss on disposal of $2,000 being recorded in the quarter.

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

5. Goodwill

Goodwill initially recognized	$	75,966
Impairment loss recognized for the period ended Dec 31, 2006		(34,000)
Impairment loss recognized during the nine months ended September 30, 2007		-
	$	41,966

6. Credit Facilities and Long-term Debt

The Partnership currently has a revolving demand facility with a commercial bank and is permitted to borrow up to $5 million. Any amounts drawn on this facility will incur interest at the bank's prime rate of interest plus 0.50%. The facility is secured by a general security agreement containing a first ranking security interest over all personal property of the Partnership and the General Partner. It is also secured by a guarantee provided by the General Partner for the full amount outstanding at any one time under the credit facility.

The Partnership has long-term debt as follows:

	Sep 30, 2007	Dec 31, 2006
Vehicle financing loans	$ 1,304	$ 1,073
Term loan	1,000	-
Less current portion	(864)	(457)
	$ 1,440	$ 616

Vehicle financing loans are at interest rates of 0% to 4.9%, are repayable in monthly payments of $800 - $2,000 and are maturing from October 2007 to March 2012.

The term loan is with a commercial bank at a fixed interest rate of 6.75% and is payable over 36 months at fixed principal payments of $28,000 per month plus interest. The loan is secured by a general security agreement containing a first ranking security interest over all personal property of the Partnership and the General Partner.

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

2008	$	864
2009		833
2010		545
2011		52
2012		10

7. Future income taxes

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

Based on its assets and liabilities as at September 30, 2007, the Partnership has estimated the amount of its temporary differences which were previously not subject to tax and the period in which these differences will reverse. Currently, the Partnership has net deductible temporary differences of $2,476,000, which principally relate to remaining tax pools attributable to IPO underwriting costs that were originally netted with unitholders' capital for accounting purposes. The Partnership estimates that these net deductible temporary differences will reverse at a nil tax rate.

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

The Partnership estimates that $7,083,000 of net taxable temporary differences will reverse after January 1, 2011, resulting in a $2,231,000 future income tax liability. The taxable temporary differences relate principally to the projected excess of net book value of goodwill over the projected remaining tax pools attributable thereto at January 1, 2011.

As the legislation gives rise to a change in the Partnership's estimated future income tax liability in the period, the recognition of the liability is accounted for prospectively and $2,231,000 of future income tax expense has been recorded for the nine month period ended September 30, 2007.

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

8. Unitholders' Equity

The Partnership is authorized to issue an unlimited number of Class A Units and Subordinated Class B Units. At September 30, 2007 there were 7,229,460 Class A Units outstanding and 2,151,486 Subordinated Class B Units outstanding. No additional units were issued during the nine month period ended September 30, 2007.

On March 2, 2007, one half of the 706,890 Class A Units that were being held in escrow were released from escrow. The remaining escrowed units are to be released on March 2, 2008.

9. Partnership Unit Option Plan

The Partnership may provide additional compensation to the employees, officers and directors of the General Partner and certain service providers by issuing options to acquire Class A Units under the Partnership's unit option plan (the "Unit Option Plan"). As at September 30, 2007, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 243,095 Class A Units remain available for grant. Options granted vest as to one-third on each of the first, second and third anniversary dates of the grant and expire five years after grant.

The following table summarizes information about the Unit Option Plan for the nine months ended September 30, 2007:

	Options	Average Exercise Price
Outstanding, beginning of period	669,500	$ 9.16
Granted during period	75,000	6.07
Cancelled during period	(49,500)	9.80
Outstanding, end of period, September 30, 2007	695,000	$ 8.78
Exercisable, end of period, September 30, 2007	193,333	$ 9.20

There were no options granted during the three months ended September 30, 2007 and the fair value of options cancelled was $26,000. The fair value of options granted during the three month period ended September 30, 2006 was $45,000 and the fair value of the options cancelled was $19,000. During the three months ended September 30, 2007, compensation costs of $31,000 were recorded in the statement of operations (three months ended September 30, 2006 - $28,000). The fair value of the options granted during the nine months ended September 30, 2007 was $64,000 (213-day period ended September 30, 2006 - $396,000) and the fair value of options cancelled was $30,000 (213-day period ended September 30, 2006 - $19,000). During the same period, compensation costs of $115,000 (213-day period ended September 30, 2006 - $66,000) were recorded in the statement of operations. The compensation costs were calculated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 4.5%, a yield of 11%, an expected volatility of 31% and expected lives of unit options of 5 years.

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

10. Earnings Per Unit

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

	Three Months Ended Sep 30, 2007	2006	Nine Months Ended Sep 30, 2007	213-day Period Ended Sep 30, 2006[1]
Earnings	$ 3,037	$ 2,500	$ 4,009	$ 4,454
Weighted average number of units outstanding:				
Basic	9,380,946	9,244,805	9,380,946	9,053,470
Effect of unit options	9,496	93	5,681	79
Diluted	9,390,442	9,244,898	9,386,627	9,053,549
Earnings per unit:				
Basic and diluted	$ 0.32	$ 0.27	$ 0.43	$ 0.49

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

11. Cash Distributions

The Partnership declares monthly distributions of cash to Class A unitholders of record as at the close of business on each monthly distribution record date. In addition, the Partnership declares quarterly distributions on the Subordinated Class B Units to unitholders of record at the close of business on each quarterly distribution record date, subject to achieving certain distribution targets on the Class A Units. The amounts of the distributions are determined by the General Partner in accordance with the Partnership Agreement on a discretionary basis. Such distributions are recorded as reductions of equity upon declaration of the distribution. The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the nine month period ended September 30, 2007 as follows:

Distribution Period 2007	Distribution Record Date	Date of Distribution	Per Class A Unit	Per Subordinated Class B Unit	Total
Jan 1 - 31	Jan 31	Feb 15	0.0792	-	$ 573
Feb 1 - 28	Feb 28	Mar 15	0.0792	-	573
Mar 1 - 31	Mar 31	Apr 13	0.0792	-	573
Jan 1 - Mar 31	Mar 31	Apr 13	-	0.2376	510
Apr 1 - 30	Apr 30	May 15	0.0792	-	573
May 1 - 31	May 31	Jun 15	0.0792	-	573
Jun 1 - 30	Jun 30	Jul 13	0.0792	-	573
Apr 1 - Jun 30	Jun 30	Jul 13	-	0.2376	510
Jul 1 – 31	Jul 31	Aug 15	0.0792	-	573
Aug 1 – 31	Aug 31	Sep 14	0.0792	-	573
Sep 1 – 30	Sep 30	Oct 15	0.0792	-	573
Jul 1 – Sep 30	Sep 30	Oct 15	-	0.2376	510
Total distributions declared during the period					$ 6,687

12. Commitments

(a) The Partnership has entered into a contract for the construction of two buildings. Commitments remaining related to this contract total $124,000. Construction is expected to be completed in late 2007.

(b) The Partnership has commitments to purchase equipment totalling $347,000. Payments will be made upon receipt of the equipment.

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

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

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

2008	$	56
2009		17

13. Payments to the General Partner

The General Partner will be allocated 0.01% of the income of the Partnership for each fiscal year and 99.99% of the income of the Partnership will be allocated to the holders of Class A Units and Subordinated Class B Units.

14. Supplemental Information

Components of change in non-cash working capital balances:	Three Months Ended Sep 30, 2007	Three Months Ended Sep 30, 2006	Nine Months Ended Sep 30, 2007	213-day Period Ended Sep 30, 2006[1]
Operating:				
Accounts receivable	$ (10,037)	$ (7,845)	$ 4,560	$ 4,207
Inventory	(747)	(456)	(1,333)	(727)
Prepaid expenses	(25)	59	(222)	(145)
Accounts payable and accrued liabilities	7,803	4,351	(4,768)	(2,092)
Deferred revenue	(45)	777	(427)	777
	(3,051)	(3,114)	(2,190)	2,020
Investing:				
Accounts payable and accrued liabilities	402	-	402	-
	$ (2,649)	$ (3,114)	$ (1,788)	$ 2,020

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

15. Subsequent Event

On October 22, 2007, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on October 31, 2007.

Partnership Information

BOARD OF DIRECTORS

Kyle D. Kitagawa[1]
Chairman

Alan D. Archibald[2]

Colin D. Boyer[1,2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Laura A. Cillis
Chief Financial Officer

Kenneth E. Zinger
Chief Operating Officer

Rodney L. Carpenter
Vice President, Business Development

Kenneth D. Zandee
Vice President, Marketing

Scott R. Cochlan
Corporate Secretary

AUDITORS
Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS
Royal Bank of Canada, Calgary, AB

SOLICITORS
Blake, Cassels & Graydon LLP
Calgary, AB

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

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

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

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