Canadian Energy
SERVICES L.P.

BUILDING & EXPANDING
OUR DRILLING FLUIDS BUSINESS

Annual Report 2006

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message from the president and chief executive officer

Our vision for Canadian Energy Services was to build on the success of two private drilling fluids businesses. I take great pride in reporting that through turbulent times for oilfield services, our vision is taking form.

CES celebrated its initial public offering on March 2, 2006. This formalized the merger of two premier private fluids businesses. The founders of the two private fluids businesses continue to manage CES' day to day operations, with the assistance of the CFO, and are primarily responsible for implementing CES' business growth strategy. Management and staff continue to own over 35% of CES' units. It remains in our interests to deliver to you, the unitholder, growth in our unique business model.

Our business model has created a premium fluids provider with equal exposure to oil and natural gas. CES' technologies and the expertise of our personnel reduce drilling costs and improve productivity for our customers in deep gas, the oilsands and conventional horizontal oil wells. We believe that is why, in a year where economics have been strained for our customers, we have increased CES' market share. We remain active in northeast British Columbia, throughout Alberta, and into southeast Saskatchewan.

We believe our business is unique in that we have been able to increase our market share with minimal capital reinvestment. This helps explain our ability to pay distributions, grow the business and exit the year essentially debt free. We believe our limited partnership structure still works for our business.

Management is focused on the development of new fluids technology, integrating our process to drive margin and enhancing the technical expertise of our employees. We have enjoyed success with new technologies such as Seal-AX[1] for the deep drilling market and Poly-Core for the oilsands delineation market. We have built our own laboratory as part of our commitment to new technology. CES' proprietary technologies coupled with expanding sales and operations capacity help us serve our customers and earn their business.

We are dedicated to enhancing unitholder value in 2007 and beyond. We believe we can achieve this goal through the execution of our existing business plan. Our initiatives include geographic expansion to the US market and internationally. We are committed to integration of services provided to our customers. This means lowering material costs to drive margin and capturing transportation revenue that our services create.

Our business depends on people. I would like to acknowledge our board, unitholders and particularly our employees and customers. Together we can continue to build momentum and create value for our unitholders and customers.

Respectfully submitted on behalf of the Board of Directors,

Thomas J. Simons
President and Chief Executive Officer

(1) patent pending

management's discussion and analysis

Period Ended December 31, 2006

The following management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with 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 included elsewhere in this annual report. The information contained in this MD&A was prepared up to and including March 9, 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: capital expenditure programs for oil and natural gas drilling; supply and demand for drilling fluid systems and industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers and equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada and the United States; development of new technology; acquisition of trucking capacity; and competitive conditions.

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

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

FINANCIAL HIGHLIGHTS

Financial Results	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006[1]
($000's except per unit amounts)		
Revenue	16,633	46,013
Gross margin[2]	4,906	13,184
Loss[3]	(31,263)	(26,809)
per unit – basic and diluted[5]	(3.33)	(2.93)
EBITDAC[2]	2,886	7,521
Cash flow from operations[2]	2,917	7,641
per unit – basic and diluted[5]	0.31	0.83
Distributions declared		
per Class A Unit	0.2376	0.7920
per Subordinated Class B Unit	0.2376	0.7920

Financial Position	Dec 31, 2006
($000's)	
Working capital	10,920
Total assets	74,910
Long-term financial liabilities[4]	616
Unitholders' equity	54,494

Partnership Units Outstanding[5]		Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006[1]
End of period		9,380,946	9,380,946
Weighted average	– basic	9,380,946	9,152,574
	– diluted	9,380,946	9,166,542

Notes:

1 From commencement of operations on March 2, 2006.

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

3 During the three month period ended December 31, 2006 the Partnership recorded a non-cash charge of $34.0 million (see "Overview of Financial and Operational Results" on page 4 and "Goodwill Impairment" on page 9).

4 Vehicle financing loans, excluding current portion.

5 Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 13).

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights of the three month period ("fourth quarter") and 305-day period ended December 31, 2006 for CES were:

- Revenue of $16.6 million increased $2.0 million (14%) from the previous quarter resulting in $46.0 million in revenue for the 305-day period to December 31, 2006. This 305-day period did not include two of the most active months for the Partnership. CES estimated market share increased from 12% in the third quarter to 16% in the fourth quarter. Overall industry average rig count in the fourth quarter dropped 8% from the third quarter.

- Gross margin of $4.9 million or 29% of revenue was generated for the fourth quarter, which as a percentage of revenue, was unchanged from the 29% in the third quarter. Gross margin was 29% of revenue overall for the 305-day period.

- Selling, general and administrative ("SG&A") costs were $2.0 million in the fourth quarter and increased 26% over the $1.6 million incurred in the third quarter. This increase reflected higher selling expenses, including commissions, required to generate the increased revenue and the continued costs to prepare for the Partnership's growth and to comply with heightened public entity reporting requirements. SG&A was 12% of revenue for both the fourth quarter and the 305-day period ended December 31, 2006. Management is actively looking at ways to achieve our target level at 10% of revenue.

- Effective November 1, 2006 the Partnership completed its first annual test for impairment in goodwill and recorded a non-cash charge of $34.0 million. Management believes this determination of goodwill impairment does not affect the future prospects of CES' underlying business, but was primarily driven by the October 31, 2006 government announcement proposing changes to the taxation of income funds, public partnerships and other flow-through entities such as CES, and broad softening of industry conditions. This write-down is a non-cash charge to earnings. It does not impact the ability of the Partnership to carry on its business, generate its cash flows or pay its distributions. CES continues to have a strong balance sheet after the write-down.

- Net earnings was a loss of $31.3 million in the fourth quarter which included the recognition of an impairment of goodwill of $34.0 million. Net earnings, excluding the goodwill impairment, was $2.7 million ($0.29 per unit on a diluted basis) in the fourth quarter.

- The Partnership maintained its level of distributions and declared monthly distributions of $0.0792 per unit to Class A unitholders. A quarterly distribution of $0.2376 was declared to the Subordinated Class B unitholders of record on December 31, 2006. The target payout ratio (refer to "non-GAAP measures" on page 5) on an annualized basis continues to be 80% of distributable cash. The actual payout ratio for the three months ended December 31, 2006 was 84% and 109% for the 305-day period ended December 31, 2006. Management continues to believe that the annual target level of distributions is achievable and appropriate for the Partnership's business. Total distributions declared for each of the Class A Units and the Subordinated Class B Units were $0.2376 for the fourth quarter and $0.7920 for the 305-day period ended December 31, 2006.

- During the fourth quarter the remaining $750,000 aggregate principal amount of the unsecured promissory notes were repaid in full.

- Vehicle financing loans, excluding current portion, at December 31, 2006 was $616,000. To date the Partnership has not drawn on its $3.0 million operating line of credit.

OVERVIEW OF THE PARTNERSHIP FORMATION AND 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 and amended and restated on March 2, 2006 (the "Partnership Agreement"). The Partnership's business and affairs are managed by Canadian Energy Services Inc. (the "General Partner") pursuant to the Partnership Agreement. A copy of the Partnership Agreement is available on the Partnership's SEDAR profile at www.sedar.com.

The General Partner was incorporated on December 9, 2005 under the *Business Corporations Act* (Alberta). The General Partner is responsible for the administration and management of the Partnership and carries out the objects, purposes and business of the Partnership. The General Partner had not carried on any business prior to the date the Partnership commenced operations, other than in connection with the Partnership's initial public offering ("IPO") and the acquisition of the drilling fluid businesses from Canadian Fluid Systems Ltd. ("CFS") and Impact Fluid Systems Inc. ("Impact") and does not hold any material assets other than legal and registered title to certain assets for and on behalf of the Partnership. The General Partner holds a 0.01% general partnership interest in the Partnership.

The Partnership commenced business operations on March 2, 2006 following the acquisition of the businesses of CFS and Impact. See "Investing Activities – Business Acquisitions" on page 11. Immediately thereafter, the Partnership completed its IPO for net proceeds of approximately $55.4 million. See "Financing Activities" on page 13. 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").

CES Operations Ltd., a wholly-owned subsidiary of the Partnership, was incorporated on September 22, 2006. Petro Services USA, LLC a Delaware limited liability company of which CES Operations Ltd. is the sole shareholder, was formed on November 28, 2006. Each of the foregoing companies were formed in connection with the Partnership's operational expansion strategy into the United States. To date, there has been no activity in either entity.

305-DAY REPORTING PERIOD AND COMPARATIVE INFORMATION

The following financial information for CES is for the 305-day period from the commencement of operations on March 2, 2006 to the period ended December 31, 2006. Readers should note the 305-day period does not represent four complete fiscal quarters of operations.

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

NON-GAAP MEASURES

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

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

	Three Months Ended Dec 31,2006	305-day Period Ended Dec 31, 2006
($000's)		
Cash provided by operating activities	3,115	9,859
Adjust for: Change in non-cash operating working capital	(198)	(2,218)
Cash flow from operations	2,917	7,641

Distributable cash – means cash flow from operations less maintenance capital. See the definition of maintenance capital under "Operational Definitions" on page 6. Distributable cash is used by management and investors to analyze the amount of cash available to distribute to unitholders before consideration of cash required for growth purposes. Refer to "Liquidity and Capital Resources – Cash Flow from Operating Activities and Distributions" on page 10 for the calculation of distributable cash.

EBITDAC – means net earnings (loss) before interest, taxes, amortization, goodwill impairment and unit-based compensation. EBITDAC, commonly referred to as EBITDA, is a metric used by many investors to access the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC is calculated as follows:

	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006
($000's)		
Loss	(31,263)	(26,809)
Add back (deduct):		
Interest income	(31)	(120)
Amortization of property and equipment	141	345
Impairment of goodwill	34,000	34,000
Partnership unit-based compensation	39	105
EBITDAC	2,886	7,521

Gross margin – means revenue less cost of sales, which represents cost of product and field 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 cash. Refer to "Liquidity and Capital Resources – Cash Flow from Operating Activities and Distributions" on page 10 for the calculation of the payout ratio.

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

OPERATIONAL DEFINITIONS

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

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

Market share – CES estimates its market share by comparing, on a semi-weekly basis, active rigs where the Partnership was contracted to provide services to the total active rigs for Western Canada. Active rigs, in both cases, included operating rigs, rigs on standby (i.e. waiting on weather) and rigs that were moving.

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

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

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

RESULTS FOR THE PERIODS

	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006
($000's, except per unit amounts)		
Revenue	16,633	46,013
Cost of sales	11,727	32,829
Gross margin	4,906	13,184
% of revenue	29%	29%
Selling, general and administrative expenses	2,020	5,663
Amortization of property and equipment	141	345
Impairment of goodwill	34,000	34,000
Partnership unit-based compensation	39	105
Interest income	(31)	(120)
Loss	(31,263)	(26,809)
per unit – basic and diluted	(3.33)	(2.93)

Revenue and Operating Activities

Revenue for the three month period ended December 31, 2006 was $16.6 million which was a 14% increase over the third quarter at $14.6 million. Revenue was $46.0 million for the 305-day period.

The Partnership continued to ship product to Fort Liard, N.W.T. in the fourth quarter for transport to the Beaver River field in northeast B.C. Personnel was also provided which generated additional revenue. The product has been staged for usage over the winter drilling season. Revenue is being recognized as the product is mixed.

The top five customers of the Partnership accounted for approximately 32% of revenue for the three months ended December 31, 2006 and 27% for the 305-day period then ended with no individual customer greater than 11% and 8% in the respective periods.

The active rig count in Western Canada averaged 471 for the three months ended December 31st based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published active rig counts for Western Canada. This was an 8% drop from the 512 average rig count in the previous quarter.

Although overall drilling activity declined, CES estimated that its operating days in the fourth quarter increased 6% from the third quarter and its estimated market share increased to 16% from 12% for the respective periods.

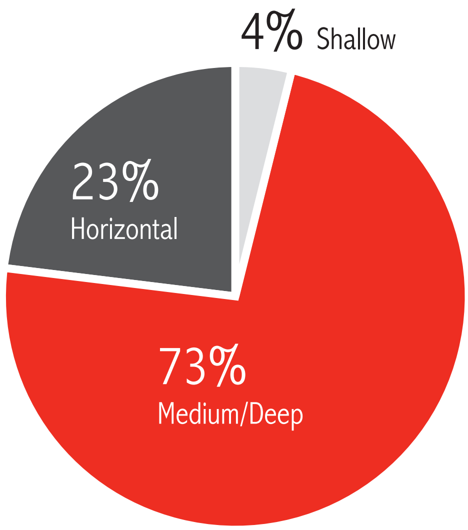
The Partnership estimated operating days as follows:

	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006
Operating days	5,244	14,408

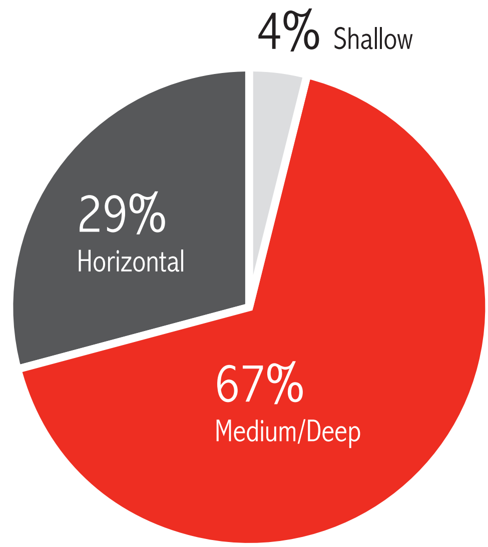
CES continued to focus on the medium to deep and horizontal wells which represented approximately 96% of revenue for the three month period ended December 31, 2006. CES' experience has been that drilling fluid systems' profitability increases significantly with the depth and complexity of the well drilled.

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

Three Months Ended December 31, 2006



305-day Period Ended December 31, 2006



Cost of Sales and Gross Margin

Gross margin of $4.9 million, or 29% of revenue, was generated for the three months ended December 31, 2006. Gross margin represents the profit earned on revenue after deducting the cost of materials, field labour and all related field costs. Margins can vary due to a change in product mix.

We continued to identify products that provide opportunities to lower costs, either by sourcing through different suppliers or by buying in larger quantities and obtaining volume discounts. As activity increases in the winter drilling season, higher turnover can support volume purchasing.

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

In December 2006, CES started working with its base oil suppliers and its customers who use Invert in their wells to have the base oil billed directly to the customer. The effect of this on CES will be to have less revenue recognized for the work done and less related costs. As CES does not generate a profit on the base oil, the overall gross margin on the work will improve accordingly on the reduced revenue. The Invert system is a key service as it enables CES to work for customers on deep wells and profit is generated on the additives to the system.

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

SG&A costs for the three months ended December 31, 2006 were $2.0 million an increase of 26% over the $1.6 million incurred in the previous quarter. This increase reflected higher selling expenses, including commissions, required to generate the increased revenue and the continued costs to prepare for the Partnership's growth and to comply with heightened public entity reporting requirements. SG&A for the 305-day period was 12% of revenue. On an annualized basis, the Partnership feels a target of SG&A at 10% of revenue is more appropriate to support the drilling fluids business and is focused on achieving planned growth and focused cost control.

In October 2006, the Partnership converted to a new business information system that harmonized the financial accounting and reporting systems inherited from the acquired businesses. See "Investing Activities – Capital Expenditures" on page 11.

Goodwill Impairment

Effective November 1, 2006 the Partnership completed its first annual goodwill impairment test in accordance with the Partnership's accounting policies. See "Initial Adoption of Accounting Policies – (e) Goodwill" on page 16. Management estimated, with the assistance of an independent valuator, the fair value of the reporting unit 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. Management concluded that a reduction in the carrying value of goodwill was required in the amount of $34.0 million.

Management believes this determination of goodwill impairment does not affect the future prospects of CES' underlying business, but was primarily driven by the October 31, 2006 government announcement proposing changes to the taxation of income funds, public partnerships and other flow-through entities, such as CES, and broad softening of industry conditions. This write-down is a non-cash charge to earnings. It does not impact the ability of the Partnership to carry on its business, generate its cash flows or pay its distributions. CES continues to have a strong balance sheet after the write-down.

Other Expense (Income) Items

Amortization of property and equipment was $141,000 for the three months ended December 31, 2006 and $345,000 for the 305-day period ended December 31, 2006, largely related to vehicles which are amortized on a straight-line basis over 3 years.

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

Interest income was largely represented by interest income earned on short-term investments.

QUARTERLY FINANCIAL SUMMARY

	30-day Period Ended Mar 31, 2006[1]	Three Months Ended June 30, 2006	Three Months Ended Sep 30, 2006	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006[1]
Financial Results					
($000's except per unit amounts)					
Revenue	6,922	7,839	14,619	16,633	46,013
Gross margin[2]	1,769	2,315	4,194	4,906	13,184
Net earnings (loss)	1,279	675	2,500	(31,263)	(26,809)
per unit – basic and diluted[3]	0.14	0.08	0.27	(3.33)	(2.93)
EBITDAC[2]	1,302	737	2,596	2,886	7,521
Cash flow from operations[2]	1,311	778	2,635	2,917	7,641
per unit – basic and diluted[3]	0.15	0.09	0.29	0.31	0.83
Partnership Units Outstanding[3]					
End of period	8,905,946	9,005,946	9,380,946	9,380,946	9,380,946
Weighted average – basic	8,905,946	8,907,045	9,244,805	9,380,946	9,152,574
Weighted average – diluted	8,905,946	8,912,539	9,244,898	9,380,946	9,166,542

Notes:

1 From commencement of operations on March 2, 2006.

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

3 Includes Class A Units and Subordinated Class B Units (see "Unitholders' Equity" on page 13).

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Partnership had cash and cash equivalents of $4.2 million. Working capital was positive at $10.9 million.

Long-term liabilities at December 31, 2006 were $616,000 for vehicle financing loans. Management is satisfied that the Partnership has sufficient liquidity and capital resources to meet this long-term payment obligation.

In June 2006, CES entered into a revolving demand facility to borrow up to $3.0 million for general operating purposes. To date, no amounts have been drawn on this facility.

Cash Flow from Operating Activities and Distributions

CES calculated distributable cash based on cash flow from operations[1] and the payout ratio based on the level of distributions declared as provided in the table below.

	Three Months Ended Dec 31, 2006	305-day Period Ended Dec 31, 2006
($000's)		
Cash flow from operations[1]	2,917	7,641
Less: Maintenance capital[2]	265	957
Distributable cash[1]	2,652	6,684
Distributions declared	2,229	7,275
Payout ratio	84%	109%[3]

Notes:

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

2 Refer to the "Operational Definitions" on page 6 for further detail.

3 The distributions declared in excess of distributable cash were funded through available cash.

Distributable cash was $2.7 million for the three months ended December 31, 2006. 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 December 31, 2006. Distributions on the Subordinated Class B Units are paid on a quarterly basis, subject to the Partnership achieving certain distribution targets on the Class A Units. 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 IPO.

The target payout ratio on an annualized basis continues to be 80% of distributable cash. The actual payout ratio for the three months ended December 31, 2006 was 84%. The actual payout ratio for the 305-day period ended December 31, 2006 was 109%. The target payout ratio level is the anticipated level for the twelve month calendar period. The actual payout ratio varies with the seasonality of the Partnership's cash flow. Periods of higher activity will cause the payout ratio to decrease, likewise lower activity periods will cause the payout ratio to increase. Distributions are funded by cash provided by operating activities. During periods of insufficient cash availability, due to either of the seasonality of the business or changes in the level of working capital, distributions could be funded through the credit facility. To date, the Partnership has not drawn on its credit facility.

Management continues to believe that the annual target level of 80% of distributable cash is achievable and appropriate for the Partnership's business.

On November 6, 2006 the Canadian Institute of Chartered Accountants (CICA) released draft guidance on the definition, calculation and reporting of distributable cash. In addition, on January 5, 2007 the Canadian Securities Administrators released proposed amendments to National Policy 41-201 Income Trusts and Other Indirect Offerings. Both of these proposals are designed to establish consistency in the definition, calculation and reporting of distributable cash.

Based on these proposals, CES' distributable cash and payout ratio would be adjusted to reflect the impact of non-cash working capital items on cash flows from operations and distributions would be based on amounts paid rather than on amounts declared. This methodology reflects a cash basis for determination of the payout ratio.

Maintenance of productive capacity is not specifically defined in the proposed guidelines. It is intended to reflect the capital required to maintain the current level of operations. CES believes that this definition is consistent with that which the Partnership has historically adopted as maintenance capital. See "Operational Definitions" on page 6.

Subsequent to the quarter end, CES declared monthly distributions of $0.0792 per Class A Unit to Class A unitholders of record on each of January 31, 2007 and February 28, 2007.

Investing Activities

Capital Expenditures

The Partnership incurred $715,000 in capital expenditures for the three months ended December 31, 2006 of which $450,000 was for expansion capital and $265,000 was for maintenance capital. See "Operational Definitions" on page 6 for an explanation of expansion versus maintenance capital. The expansion capital related to growth in the vehicle fleet ($183,000), new trucking and tank equipment ($154,000), the new business information system implemented by the Partnership ($59,000) and other growth capital ($54,000) . Maintenance capital primarily related to replacement vehicles ($228,000).

For the 305-day period to December 31, 2006, the Partnership incurred $937,000 in expansion capital (primarily for land and facilities of $265,000, the business information system of $236,000, vehicle fleet expansion of $183,000, trucking and tank equipment of $154,000 and other $99,000) and $957,000 for maintenance capital (primarily for vehicles $782,000).

Business Acquisitions

On March 2, 2006, the Partnership completed the acquisition of the drilling fluids businesses from Impact and CFS (collectively, with Impact the "Vendors") for an aggregate purchase price of $80.7 million, plus an aggregate working capital adjustment of $6.0 million.

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

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

The acquisition of the drilling fluids businesses by the Partnership has been accounted for using the purchase method and earnings have been recorded from March 2, 2006.

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

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

The acquisition notes were repaid with proceeds from the IPO. See "Financing Activities" on page 13.

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

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

On September 18, 2006, the Partnership extended the conversion option on the unsecured promissory notes to September 30, 2006, and a further $750,000 aggregate principal amount was converted into Class A Units at $10.00 per Class A Unit. During the three month period ended September 30, 2006 an aggregate of $500,000 of the outstanding notes were repaid in cash and the remaining amount payable of $750,000 was assigned from the Vendors to a related party who is also an officer of the General Partner. During the three month period ended December 31, 2006 the outstanding amount of $750,000 was paid out in cash.

The above business acquisitions were transacted with certain individuals or entities controlled by them, who as a result of the acquisitions are significant unitholders of the Partnership. These individuals or persons related to them have continued in key management roles with the General Partner. These persons include Rodney L. Carpenter and Thomas J. Simons who are officers, directors and significant direct or indirect shareholders of CFS and Impact, respectively, as well as officers and directors of the General Partner. See "Transactions with Related Parties" on page 15.

Financing Activities

On March 2, 2006, the Partnership completed the IPO of 5,893,866 Class A Units at a price of $10.00 per Class A Unit for aggregate gross proceeds of $58.9 million before deducting $3.5 million in underwriting commissions and approximately $1.8 million in other costs relating to the IPO. Of the net proceeds, $50.6 million was used to repay the acquisition notes issued to each of CFS and Impact (see "Investing Activities – Business Acquisitions" on page 11) and the remaining $3.0 million was retained in the Partnership to fund growth opportunities including the purchase of the Carlyle Facility (as defined herein). See "Transactions with Related Parties" on page 15.

Impact of Proposed Changes to the Taxation of Public Flow-Through Entities

On October 31, 2006, the Department of Finance (Canada) ("the Department") announced a new tax, which, if enacted, would impose a tax of 31.5% on certain flow-through entities including public partnerships such as CES. This tax is intended to be comparable to the current combined federal and provincial corporate tax rate. The October 31, 2006 announcement was followed by the release of draft legislation on December 21, 2006. If enacted, this tax regime will not be effective for CES until January 1, 2011.

In the October 31, 2006 announcement, the Department stated that the four-year transitional period would be revisited if there was "undue expansion" of the affected entities, but there was no intention to prevent such entities from undergoing "normal growth". The Department released guidance on December 15, 2006 clarifying what it considers as "normal growth" for flow-through entities through the transitional period to December 31, 2010. The guidelines provide that the Department will not recommend any change to the transition period for entities that do not increase their equity capital (including new securities convertible into equity, but excluding equity issued on the conversion of convertible securities existing on October 31, 2006) each year during the transitional period by more than an amount equal to the greater of $50.0 million and a cumulative safe harbour amount. The safe harbour amount will be measured by reference to the entity's market capitalization as of the end of trading on October 31, 2006. CES' market capitalization at the close of trading on October 31, 2006 was $52.4 million. The safe harbour limits for the period to 2011, which are subject to some restrictions, will be as follows:

- 40% of market capitalization for the period from November 1, 2006 to December 31, 2007; and
- 20% of market capitalization for each of the years 2008, 2009 and 2010.

Since CES' safe harbor limit would be $21.0 million for the period from November 1, 2006 to December 31, 2007 and $10.5 million for each of the years 2008, 2009 and 2010, the $50.0 million limit would be the minimum applicable limit for each year during the transitional period.

Unitholders' Equity

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

In connection with the acquisition of the drilling fluids businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. Of the Class A Units issued to the Vendors, 706,890 Class A Units are held in escrow with one half of the units to be released from escrow on the first anniversary of the date of the acquisition, and the remaining units to be released on the second anniversary of the date of the acquisition. The Subordinated Class B Units issued to CFS and Impact in connection to the acquisitions are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and in certain other limited circumstances. Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units.

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

Class A Units	Number of Units		Amount
			($000's)
Issued pursuant to initial public offering	5,893,866	$	58,939
Less unit issue expenses	-		(5,336)
	5,893,866		53,603
Issued as consideration for acquired businesses	860,594		8,606
Issued on conversion of promissory notes	475,000		4,750
Class A Units at December 31, 2006	7,229,460	$	66,959

Subordinated Class B Units	Number of Units		Amount
			($000's)
Issued as consideration for acquired businesses	2,151,486	$	21,514
Subordinated Class B Units at December 31, 2006	2,151,486	$	21,514

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 December 31, 2006, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 268,595 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.

As part of an employee retention program and following regulatory approval, on October 6, 2006 the Partnership adjusted the exercise price of 196,500 of the outstanding Unit Options held by certain office and field employees from a weighted average exercise price of $9.87 to $7.79. The new exercise price reflected the current market price of the Class A Units. The incremental value due to the reduction in the exercise price is $50,000, which will be recognized as unit-based compensation over the remaining vesting period. The exercise price was not adjusted for any of the options held by directors, officers and other insiders of the General Partner. The option repricing was effected solely as an incentive to employees in recognition of robust labor market conditions.

Commitments / Contractual Obligations

The Partnership has the following financial commitments with payments due for the years ending December 31 as follows:

	2007	2008	2009	2010	Total
($000's)					
Vehicle financing loans	$ 457	$ 373	$ 231	$ 12	$ 1,073
Operating leases	107	53	10	-	170
Office rent	336	-	-	-	336
Total	$ 900	$ 426	$ 241	$ 12	$ 1,579

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 off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CES prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). There were no new accounting policies announced during the period presented which would be expected to materially impact 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 reported 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 and equipment and the unit-based compensation.

INITIAL ADOPTION OF ACCOUNTING POLICIES

The Partnership has adopted the following significant accounting policies:

(a) Consolidation:

These consolidated financial statements include the accounts of the Partnership and its wholly-owned subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

(b) Cash and cash equivalents:

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

(c) Inventory:

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

(d) Property and equipment:

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

Computer equipment and software	3 years	straight-line method
Vehicles	3 years	straight-line method
Trucks	5 years	straight-line method
Field equipment	5 years	straight-line method
Furniture and fixtures	5 years	straight-line method
Buildings	10 years	straight-line method
Tanks	15 years	straight-line method

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

(e) Goodwill:

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

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

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

(f) Revenue recognition:

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. For sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue will only be recognized when collection is reasonably assured.

(g) Unit-based compensation:

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

(h) Income taxes:

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

The subsidiaries of the Partnership follow the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on “temporary differences” (differences between the accounting carrying value and the tax carrying value of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future tax assets and liabilities is recognized in income in the period in which the change occurs.

(i) Measurement uncertainty:

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

(j) Earnings (loss) per unit:

Basic earnings (loss) per unit are computed by dividing net earnings by the weighted average number of units outstanding during the period. The Partnership uses the treasury stock method for calculating diluted earnings per unit. Diluted earnings per unit are computed similar to basic earnings per unit except that the weighted average units outstanding are increased to include additional units from the assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises and any unrecognized unit-based compensation in aggregate are used to acquire Class A Units at the average market price during the period.

Effective January 1, 2007, the Partnership will be required to adopt a number of new accounting standards regarding financial instruments as issued by the Canadian Institute of Chartered Accountants. All financial instruments, including derivatives, are to be included on a company’s balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized costs. The standards also provide guidance on when gains and losses as a result of changes in fair values are to be recognized in the income statement. The Partnership is evaluating the impact these new standards will have on the consolidated financial statements but does not expect it to be significant.

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.

FINANCIAL INSTRUMENTS

The Partnership’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable and vehicle financing loans. Unless otherwise stated, the fair value of the financial instruments approximates their carrying value due to the short terms to maturity.

The Partnership has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The Partnership is exposed to minimal interest rate risk due to favourable terms on vehicle financing loans.

RISK AND UNCERTAINTIES

The drilling industry is cyclical and the business of CES is directly affected by fluctuations in the level of oil and natural gas exploration and development activity carried on by its clients. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, oil, natural gas and natural gas liquids prices, access to capital markets and government policies including environmental 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 Canada.

The oil and natural gas drilling season is affected by weather. The industry is generally more active during the winter months of November through March, as the movement of heavy equipment is easier over the frozen ground. Wet weather, traditionally 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 and therefore serve to enhance CES' revenue generation. Mitigation of weather risk is difficult and costly as effective derivative products do not yet exist to successfully manage this risk.

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

- 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 environmental responsibilities seriously and has instituted standards, policies and procedures to address this risk area. In addition, the Partnership maintains insurance policies with respect to its operations providing coverage of all material insurable risks.

A concentration of credit risk exists in CES' trade accounts receivable since they are currently exclusively from companies operating in the WCSB. 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. It is not possible to predict the likelihood or magnitude of this risk. CES attempts to mitigate this risk by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers and by review of its credit procedures on a regular basis.

Reference should be made to the Partnership's Annual Information form for the period ended December 31, 2006, and in particular to the heading "Risk Factors" for further risks associated with the business, operations and structure of the Partnership.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be reported by the Partnership is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of the General Partner, to allow timely decisions regarding required public disclosure by CES in its annual filings, interim filings or other reports filed or submitted in accordance with Canadian securities legislation.

At the end of the period covered by this MD&A, management of the General Partner, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Partnership's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Partnership's annual filings and interim filings and other reports filed or submitted in accordance with Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the General Partner, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow decisions regarding required disclosure.

Internal Controls over Financial Reporting

Management of the General Partner is responsible for designing adequate internal controls over financial reporting for the Partnership to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the design of the Partnership's internal controls over financial reporting as at December 31, 2006, and based on that assessment determined that there were no significant deficiencies or material weaknesses in the design of CES' internal controls over financial reporting.

It should be noted that while the General Partner's President and Chief Executive Officer and Chief Financial Officer believe that the Partnership's disclosure controls and procedures provide a reasonable level of assurance that they are effective, and that the internal controls over financial reporting are adequately designed, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The only change in the Partnership's internal controls over financial reporting that occurred in the fourth quarter of 2006, the most recent interim period, that has a significant impact is the conversion of the financial systems to the Microsoft Dynamics Navision software system effective October 1, 2006. This conversion enhanced the application controls relied upon and strengthens the overall internal controls over financial reporting.

OUTLOOK

Management believes that CES continues to be well positioned, with its geographic diversification and broad scope of service offerings, to maintain its growing position under competitive market conditions.

- While the consensus outlook for activity in the Canadian energy service sector in 2007 forecasts an approximate 10% decrease in the number of wells drilled, the first slowdown since 2002, CES continues to believe it can achieve market share growth in this challenging environment. The Partnership's expanding client base and strong value adding products enable CES to record higher activity levels despite reductions in the capital programs of some of the Partnership's clients. CES anticipates its client mix will change as operators with more counter-cyclical strategies expand their capital spending to take advantage of increased rig and oilfield service availability.

- Conventional horizontal drilling for oil is very active, driven by high commodity prices. CES' Liquidrill™ technology remains a leading drilling fluid system in the oil drilling industry segment.

- CES is well positioned in both southeast Saskatchewan and across the United States border to participate in the Bakken oil field play (the "Bakken"). The Bakken formation, which expands from southeast Saskatchewan into South Dakota and west into Montana is expected to provide additional opportunities for CES in 2007. A substantial portion of CES' horizontal activity comes from the southeast Saskatchewan area of the Bakken formation.

- Oilsands drilling activity is increasing as drilling contractors build out new rigs that have been specially built for horizontal drilling in the oilsands. The commercial phases of these projects will provide significant opportunities. Programs have started to "kick off" with coring wells being drilled by a number of oilsands operators. Forecast maximum oil sands spending levels are not expected to occur until 2010-2012.

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.

management report

Management is responsible for the preparation of the consolidated financial statements in accordance with generally accepted accounting principles and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

External auditors appointed by the unitholders have examined the consolidated financial statements. The Audit Committee, consisting of three non-management directors, has reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements.

Thomas J. Simons
President & Chief Executive Officer
March 2, 2007

Laura A. Cillis
Chief Financial Officer
March 2, 2007

auditors' report

To the Unitholders of Canadian Energy Services L.P.:

We have audited the consolidated balance sheet of Canadian Energy Services L.P. (the "Partnership") as at December 31, 2006 and the consolidated statements of operations and deficit and cash flow for the period from commencement of operations on March 2, 2006 to December 31, 2006. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and the results of its operations and its cash flows for the period from commencement of operations on March 2, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 2, 2007

CONSOLIDATED BALANCE SHEET

As at December 31, 2006 (stated in thousands of dollars)

		2006
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	$	4,194
Accounts receivable		23,733
Inventory		2,613
Prepaid expenses		180
		30,720
Property and equipment (note 6)		2,224
Goodwill (note 7)		41,966
	$	74,910
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$	17,832
Distributions payable		1,084
Deferred revenue		427
Current portion of vehicle financing loans (note 8)		457
		19,800
Vehicle financing loans (note 8)		616
Unitholders' equity		
Class A Units (note 9)		66,959
Subordinated Class B Units (note 9)		21,514
Contributed surplus		105
Deficit		(34,084)
		54,494
	$	74,910

Commitments (note 13)
Subsequent Events (note 17)

APPROVED ON BEHALF OF THE BOARD:

Thomas J. Simons
President & Chief Executive Officer and Director

D. Michael Stewart
Director & Chairman, Audit Committee

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

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

From commencement of operations on March 2, 2006 to December 31, 2006 (stated in thousands of dollars except per unit amounts)

		Period Ended Dec 31, 2006
Revenue	$	46,013
Cost of sales		32,829
Gross margin		13,184
Expenses		
Selling, general and administrative expenses		5,663
Amortization of property and equipment		345
Impairment of goodwill (note 7)		34,000
Partnership unit-based compensation (note 10)		105
Interest income		(120)
		39,993
Loss for the period		(26,809)
Retained earnings, beginning of period		-
Unitholders' distributions declared (note 12)		(7,275)
Deficit, end of period	**$**	**(34,084)**
Loss per Partnership unit (note 11)		
Basic and diluted	$	(2.93)

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

CONSOLIDATED STATEMENT OF CASH FLOW

From commencement of operations on March 2, 2006 to December 31, 2006 (stated in thousands of dollars)

		Period Ended Dec 31, 2006
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Loss for the period	$	(26,809)
Items not involving cash:		
Amortization of property and equipment		345
Impairment of goodwill (note 7)		34,000
Partnership unit-based compensation		105
Change in non-cash operating working capital (note 16)		2,218
		9,859
FINANCING ACTIVITIES:		
Units issued for cash, net of issue costs		53,603
Repayment of vehicle financing loans		(227)
Distributions to unitholders		(6,191)
		47,185
INVESTING ACTIVITIES:		
Repayment of acquisition notes (note 4)		(50,602)
Repayment of promissory notes (note 4)		(1,250)
Purchase of property and equipment		(998)
		(52,850)
INCREASE IN CASH AND CASH EQUIVALENTS		4,194
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, end of period (note 5)	$	4,194

SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	$	1
Taxes paid	$	-

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

notes to the consolidated financial statements

From commencement of operations on March 2, 2006 to December 31, 2006

(tabular amounts in thousands of dollars, except unit and per unit amounts)

1. THE LIMITED PARTNERSHIP

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

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.

CES Operations Ltd., a wholly-owned subsidiary of the Partnership, was incorporated on September 22, 2006. Petro Services USA, LLC, a Delaware limited liability company of which CES Operations Ltd. is the sole shareholder, was formed on November 28, 2006. As of December 31, 2006, there has been no activity in either entity.

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

2. BASIS OF PRESENTATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation:

These consolidated financial statements include the accounts of the Partnership and its wholly-owned subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

(b) Cash and cash equivalents:

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

(c) Inventory:

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

(d) Property and equipment:

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

Computer equipment and software	3 years	straight-line method
Vehicles	3 years	straight-line method
Trucks	5 years	straight-line method
Field equipment	5 years	straight-line method
Furniture and fixtures	5 years	straight-line method
Buildings	10 years	straight-line method
Tanks	15 years	straight-line method

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

(e) Goodwill:

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

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

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

(f) Revenue recognition:

The Partnership's revenue is primarily comprised of the sale of products and the provision of services. Revenue on sales of product is recognized based on fixed or determinable prices when the product has been delivered to the well site and the product has been mixed. For sales that are invoiced upon shipment of the product, deferred revenue is recorded for the portion of the product that has not been mixed. Revenue from field service charges is recognized based upon agreed daily, hourly or job rates, when the service is performed. Revenue will only be recognized when collection is reasonably assured.

(g) Unit-based compensation:

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

(h) Income taxes:

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

The subsidiaries of the Partnership follow the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting carrying value and the tax carrying value of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on futures tax assets and liabilities is recognized in income in the period in which the change occurs.

On October 31, 2006, the Department of Finance (Canada) announced a new tax which, if enacted, would modify the taxation of certain flow-through entities including public partnerships such as CES. The October 31, 2006 announcement was followed by the release of draft legislation on December 21, 2006. The proposed changes will apply a tax at the partnership level at a rate of tax of 31.5% which is comparable to the current combined federal and provincial tax rate. This tax would not be effective for CES until January 1, 2011.

(i) Measurement uncertainty:

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

(j) Earnings (loss) per unit:

Basic earnings (loss) per unit are computed by dividing net earnings by the weighted average number of units outstanding during the period. The Partnership uses the treasury stock method for calculating diluted earnings per unit. Diluted earnings per unit are computed similar to basic earnings per unit except that the weighted average units outstanding are increased to include additional units from the assumed exercise of unit options, if dilutive. The number of additional units is calculated by assuming that outstanding unit options were exercised and that the proceeds from such exercises and any unrecognized unit-based compensation in aggregate are used to acquire Class A Units at the average market price during the period.

(k) Financial instruments:

The Partnership's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable and vehicle financing loans. Unless otherwise stated, the fair value of the financial instruments approximates their carrying value due to their short terms to maturity.

The Partnership has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The Partnership is exposed to minimal interest rate risk due to favourable terms on vehicle financing loans.

4. BUSINESS ACQUISITIONS

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

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

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

The acquisition notes were repaid with proceeds from the initial public offering (note 9).

The payable to the Vendors was satisfied by the issuance of an unsecured promissory note that was for a term of two years from March 2, 2006, at such time they become payable on demand, and was non-interest bearing for the first year of the term but was interest bearing at the Royal Bank of Canada prime rate on the second year of the term. The promissory notes carried a conversion option in favour of the holders thereof to convert the amounts payable into Class A Units at a conversion price of $10.00 per Class A Unit for a period of up to six months from March 2, 2006, the date of the acquisitions. On September 18, 2006, the Partnership extended the conversion option on the unsecured promissory notes to September 30, 2006. During the 305-day period ended December 31, 2006, $4.75 million aggregate principal amount of the unsecured promissory notes were converted into Class A Units at a conversion price of $10.00 per Class A Unit and $1.25 million was repaid in cash (note 9).

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

5. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

Cash	$	194
Temporary investments		4,000
	$	4,194

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value Dec 31, 2006
Computer equipment and software	$ 359	$ 55	$ 304
Vehicles	1,375	210	1,165
Trucks	119	1	118
Field equipment	287	39	248
Furniture and fixtures	125	17	108
Buildings	256	19	237
Tanks	35	-	35
Land	9	-	9
	$ 2,565	**$ 341**	**$ 2,224**

7. GOODWILL

Goodwill acquired during the period (note 4)	$ 75,966
Impairment loss recognized during the period	(34,000)
	$ 41,966

Effective November 1, 2006, the Partnership completed its first annual goodwill impairment test in accordance with its accounting policies (see note 2). Management estimated the fair value of the Partnership's drilling fluids business (the sole reporting unit) 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. Management concluded that a reduction in the carrying value of goodwill was required in the amount of $34.0 million.

8. CREDIT FACILITIES AND VEHICLE FINANCING LOANS

In June 2006, the Partnership entered into a revolving demand facility with a commercial bank that permits the Partnership to borrow up to $3.0 million at the bank's prime rate of interest plus 0.50%. The facility is secured by a general security agreement containing a first ranking security interest over all personal property of the Partnership and the General Partner. It is also secured by a guarantee provided by the General Partner for the full amount outstanding at any one time under the credit facility. During the period there were no amounts drawn on the facility by the Partnership.

The carrying values of vehicle financing loans are approximately equal to fair value and are comprised of:

Vehicle financing loans at interest rates of 0% to 4.9%, repayable in monthly payments of $0.8- $2.0, maturing from October 2007 to September 2010	$ 1,073
Less current portion	457
	$ 616

Principal payments are as follows for the years ending December 31:

2007	$ 457
2008	373
2009	231
2010	12

9. UNITHOLDERS' EQUITY

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

Class A Units	Number of Units		Amount
Issued pursuant to initial public offering	5,893,866	$	58,939
Less unit issue expenses	-		(5,336)
	5,893,866		53,603
Issued as consideration for acquired businesses	860,594		8,606
Issued on conversion of promissory notes (note 4)	475,000		4,750
Class A Units at December 31, 2006	7,229,460	$	66,959

Subordinated Class B Units	Number of Units		Amount
Issued as consideration for acquired businesses	2,151,486	$	21,514
Subordinated Class B Units at December 31, 2006	2,151,486	$	21,514

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

In connection with the acquisition of the drilling fluids businesses, the Partnership issued an aggregate of 860,594 Class A Units and 2,151,486 Subordinated Class B Units to the Vendors as partial consideration for the acquired businesses. Of the Class A Units issued to the Vendors, 706,890 Class A Units are held in escrow with one half of the units to be released from escrow on the first anniversary of the date of the acquisition, and the remaining units to be released on the second anniversary of the date of the acquisition. The Subordinated Class B Units issued to CFS and Impact in connection with the acquisition are non-transferable (except to certain shareholders, associates or affiliates of the respective Vendors) and are only exchangeable into Class A Units on or after March 2, 2009, unless a take-over bid is made for the Class A Units and certain other limited circumstances. Distributions on the Subordinated Class B Units are paid quarterly subject to achieving certain distribution targets on the Class A Units.

10. 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 December 31, 2006, 938,095 Class A Units were reserved for issuance under the Unit Option Plan, of which 268,595 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 as at December 31, 2006.

	Options		Average Exercise Price
Outstanding, beginning of period	-	$	-
Granted during period [1]	694,500		9.16
Cancelled during period [1]	(25,000)		9.15
Outstanding, end of period, December 31, 2006	669,500	$	9.16
Exercisable, end of period, December 31, 2006	-		-

[1] The calculation of the average exercise price factors in the adjustment of the strike price of 196,500 options as described below.

The fair value of the options granted during the period ended December 31, 2006 was $435,000 and the fair value of the options cancelled was $20,000. During the same period, compensation costs of $105,000 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.

As part of an employee retention program on October 6, 2006, the Partnership adjusted the exercise price of 196,500 of the outstanding Unit Options held by certain office and field employees from a weighted average exercise price of $9.87 to $7.79. The new exercise price reflected the current market price of the Class A Units. The incremental value due to the reduction in the exercise price is $50,000, which will be recognized as unit-based compensation over the remaining vesting period. The exercise price was not adjusted for any of the options held by directors, officers and other insiders of the General Partner.

11. EARNINGS (LOSS) PER UNIT

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

		Period Ended Dec 31, 2006
Loss	$	(26,809)
Weighted average number of units outstanding:		
Basic		9,152,574
Effect of unit options		13,968
Diluted		9,166,542
Loss per unit:		
Basic and diluted	$	(2.93)

12. CASH DISTRIBUTIONS

The Partnership declares monthly distributions of cash to Class A unitholders of record as at the close of business on each monthly distribution record date. In addition, the Partnership pays quarterly distributions on the Subordinated Class B Units to unitholders of record at the close of business on each quarterly distribution record date, subject to achieving certain distribution targets on the Class A Units. Such distributions are recorded as reductions of equity upon declaration of the distribution. The Partnership has declared distributions to holders of Class A Units and Subordinated Class B Units for the period ended December 31, 2006 as follows:

Distribution Period 2006	Distribution Record Date	Date of Distribution	Per Class A Unit	Per Subordinated Class B Unit	Total
Mar 2 - 31	Mar 31	Apr 13	$ 0.0792	$ 0.0792	$ 705
Apr 1 - 30	Apr 30	May 15	0.0792	-	535
May 1 - 31	May 31	Jun 15	0.0792	-	535
Jun 1 - 30	Jun 30	Jul 14	0.0792	-	543
Apr 1 - Jun 30	Jun 30	Jul 14	-	0.2376	511
Jul 1 - 31	Jul 31	Aug 15	0.0792	-	567
Aug 1 - 31	Aug 31	Sept 15	0.0792	-	567
Sept 1 - 30	Sept 30	Oct 13	0.0792	-	572
Jul 1 - Sept 30	Sept 30	Oct 13	-	0.2376	511
Oct 1 - 31	Oct 31	Nov 15	0.0792	-	572
Nov 1 - 30	Nov 30	Dec 15	0.0792	-	573
Dec 1 - 31	Dec 31	Jan 15	0.0792	-	573
Oct 1 - Dec 31	Dec 31	Jan 15	-	0.2376	511
Total Distributions					**$ 7,275**

13. COMMITMENTS

(a) The Partnership has an agreement regarding a sublease for office space until August 31, 2007 and expects to pay approximately $336,000 of rent and operating costs to that date.

(b) The Partnership has operating vehicle leases and the lease payments due for the years ending December 31 are as follows:

2007	$ 107
2008	53
2009	10

14. PAYMENTS TO THE GENERAL PARTNER

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

15. RELATED PARTY TRANSACTIONS

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

See note 4 for detail on additional related party transactions.

16. SUPPLEMENTAL INFORMATION

Components of change in non-cash operating working capital balances:		Period Ended Dec 31, 2006
Accounts receivable	$	3,060
Inventory		(1,574)
Prepaid expenses		(157)
Accounts payable and accrued liabilities		462
Deferred revenue		427
	$	2,218

17. SUBSEQUENT EVENTS

On January 25, 2007, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on January 31, 2007.

On February 20, 2007, the Partnership declared a monthly distribution of $0.0792 per Class A Unit to unitholders of record on February 28, 2007.

partnership information

BOARD OF DIRECTORS

Kyle D. Kitagawa, Chairman[1]

Alan D. Archibald[2]

Colin D. Boyer[1, 2]

John M. Hooks[2]

D. Michael G. Stewart[1]

Thomas J. Simons

Rodney L. Carpenter

1 Member of the Audit Committe

2 Member of the Governance and Compensation Committee

OFFICERS

Thomas J. Simons,
President and Chief Executive Officer

Laura A. Cillis, Chief Financial Officer

Kenneth E. Zinger, Chief Operating Officer

Rodney L. Carpenter,
Vice President, Business Development

A. David Rosenthal, Vice President, Operations

Kenneth D. Zandee, Vice President, Marketing

Scott R. Cochlan, Corporate Secretary

AUDITORS

Deloitte & Touche LLP
Chartered Accountants, Calgary, AB

BANKERS

Royal Bank of Canada
Calgary, AB

SOLICITORS

Blake, Cassels & Graydon LLP
Calgary, AB

REGISTRAR & TRANSFER AGENT

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Calgary, AB and Toronto, ON

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