



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp. ("CES" or the "Company") for the three and six months ended June 30, 2015, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2014 and 2013, and CES' 2014 Annual Information Form. This MD&A is dated August 12, 2015, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.*

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

*In particular, this MD&A contains forward-looking information pertaining to the following: future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the seasonality of CES' business and anticipated reduction in exposure to the effects of spring break-up in the WCSB; the duration of spring break-up; the certainty and predictability of future cash flows and earnings; the sufficiency of liquidity and capital resources to meet long-term payment obligations; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2015, including maintenance capital and discretionary expansion capital; the expected timing for completion of expansions at JACAM facilities; the commissioning date of the barite grinding facility in Corpus Christi; management's opinion of the impact of any potential litigation or disputes; potential outcomes of the CRA's intent to challenge the Canadian tax consequences of the Conversion; the application of critical accounting estimates and judgements; the collectability of accounts receivable; the expected range of consolidated revenue and EBITDAC; CES' ability to increase or maintain its market share, including expectations that PureChem and JACAM will increase market-share in the oilfield consumable chemical market; supply and demand for CES' products and services, including expectations for growth in CES' production and speciality chemical sales and expected growth in the consumable chemicals market; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding expansion of services in Canada and the United States; development of new technologies; expectations regarding CES' growth opportunities in Canada and the United States; the effect of acquisitions on the Company; expectations regarding the performance or expansion of CES' operations; expectations regarding demand for CES' services and technology; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.*

*CES' 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; fluctuations in demand for consumable fluids and chemical oilfield services, and the recent downturn in oilfield activity; a decline in activity in the WCSB, the Permian and other basins in which the Company operates; 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; the recent declines in prices for oil, and pricing differentials between world pricing and pricing in North America; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of recent fluctuations in value of the U.S. dollar; 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; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; 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; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; reassessment and audit risk associated with the Conversion and other tax filing matters; changes to the fiscal regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2014 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.*

## THREE-FOR-ONE STOCK SPLIT

On June 19, 2014, the Company's shareholders approved a three-for-one split of CES' outstanding common shares (the "Stock Split"). The Stock Split was effected in the form of the issuance of two additional common shares for each share owned by shareholders of record at the close of business on July 18, 2014. The Company's common shares commenced trading on a post-split basis on July 24, 2014, on both the Toronto Stock Exchange and the OTC Markets OTCQX Exchange. All share data and information related to the Company's stock-based compensation plans presented herein have been retroactively adjusted to give effect to the stock split.

## BUSINESS OF CES

CES is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. At the drill-bit, CES' designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CES' designed chemicals form a critical component of fracking solutions or other forms of well stimulation techniques. The shift to horizontal drilling and multi-stage fracturing with long horizontal well completions has been responsible for significant growth in the drilling fluids and completion and stimulation chemicals markets. At the wellhead and pump-jack, CES' designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Key solutions include corrosion inhibitors, demulsifiers, H<sub>2</sub>S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipeline and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H<sub>2</sub>S.



CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in several basins throughout the United States ("US"), with an emphasis on servicing the ongoing major resource plays. In Canada, CES operates under the trade names Canadian Energy Services, PureChem Services ("PureChem"), Clear Environmental Solutions ("Clear"), and EQUAL Transport

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("EQUAL"). In the US, CES operates under the trade names AES Drilling Fluids ("AES"), AES Drilling Fluids Permian ("AES Permian"), and JACAM Chemicals ("JACAM").

The Canadian Energy Services, AES, and AES Permian brands are focused on the design and implementation of drilling fluids systems for oil and gas producers. The JACAM and PureChem brands are vertically integrated manufacturers of advanced production and specialty chemicals for the wellhead and pump-jack, drilling related chemicals, technically advanced fluids for completions and stimulations, and chemical solutions for the pipeline and midstream markets.

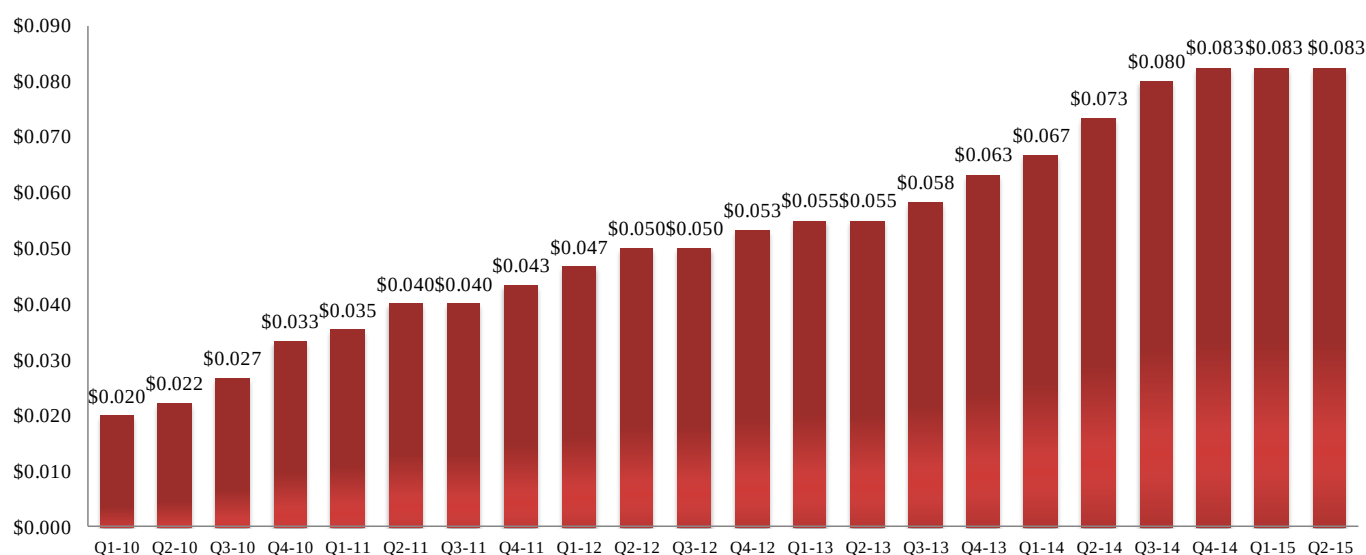
Two complimentary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. EQUAL is CES' transport division, providing its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work in the WCSB. EQUAL transports and handles oilfield produced fluids and supports the oilfield chemical business by hauling, handling, managing and warehousing products. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

Led by JACAM's state of the art laboratory in Sterling, Kansas, CES operates four separate lab facilities across North America which also includes Houston, Texas; Carlyle, Saskatchewan; and Calgary, Alberta. In 2015 CES is expanding its laboratory capabilities in Houston and Calgary and is building a new laboratory in Midland, Texas. CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas and its Canadian chemical blending facilities are located in Carlyle, Saskatchewan and Nisku, Alberta. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

CES' business model is relatively asset light and requires limited re-investment capital to grow. As a result, CES has been able to capitalize on the growing market demand for drilling fluids and production and specialty chemicals in North America while generating free cash flow. The Company returns much of this free cash flow back to shareholders through its monthly dividend.

From the period of January 1, 2010, to June 30, 2015, the Company has increased its monthly dividend eleven times from \$0.0067 per share to \$0.0275 per share, which is 4.1 times greater on a per share basis. Following the 2013 JACAM Acquisition and with the organic growth of the PureChem business in Canada, the Company has diversified its revenue stream and built a revenue and cash flow base in longer term, more predictable production and midstream markets. The increase in both scale and diversity of the Company's operations has resulted in increased certainty of future cash flows from its businesses, thereby positioning CES to provide a more reliable dividend stream to investors.

#### QUARTERLY DIVIDEND GROWTH<sup>1</sup>



#### Notes:

<sup>1</sup>Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

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### NON-GAAP MEASURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures do not have a standardized meaning under IFRS and may therefore not be comparable to similar measures used by other issuers. For the purposes of this MD&A, net income, as discussed throughout, represents the net income attributable to the shareholders of the Company, unless otherwise noted. The non-GAAP measures are further defined for use throughout this MD&A as follows:

**EBITDAC** – is defined as net income attributable to the shareholders of the Company before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDAC is a metric used to assess the financial performance of an entity's operations. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC is calculated as follows:

| \$000's                                                              | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|----------------------------------------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                                                      | 2015                           | 2014   | 2015                         | 2014   |
| Net income                                                           | 1,758                          | 8,459  | 15,669                       | 27,951 |
| Add back (deduct):                                                   |                                |        |                              |        |
| Depreciation in cost of sales                                        | 7,574                          | 5,484  | 15,194                       | 10,614 |
| Depreciation and amortization in general and administrative expenses | 5,533                          | 3,661  | 11,140                       | 7,374  |
| Interest expense, net of interest income                             | 5,998                          | 5,053  | 12,032                       | 9,954  |
| Amortization of capitalized deferred financing costs                 | 331                            | 259    | 663                          | 503    |
| Current income tax (recovery) expense                                | (2,153)                        | 1,604  | (1,726)                      | 4,666  |
| Deferred income tax expense                                          | 495                            | 1,698  | 2,500                        | 4,566  |
| Stock-based compensation                                             | 6,506                          | 5,560  | 11,674                       | 9,747  |
| Unrealized foreign exchange (gain) loss                              | (8)                            | 164    | (89)                         | 144    |
| Unrealized derivative gain                                           | (487)                          | (473)  | (266)                        | (291)  |
| Gain on disposal of assets                                           | (121)                          | (86)   | (308)                        | (322)  |
| Other income                                                         | (5,816)                        | -      | (5,816)                      | -      |
| EBITDAC                                                              | 19,610                         | 31,383 | 60,667                       | 74,906 |

**Funds Flow From Operations** – is defined as cash flow from operations before changes in non-cash operating working capital and represents the Company's after tax operating cash flows. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. Funds Flow From Operations assists management and investors in analyzing operating performance and leverage.

**Distributable Earnings** – is defined as Funds Flow From Operations less Maintenance Capital (the definition of Maintenance Capital is under "Operational Definitions"). Distributable Earnings is a measure used by management and investors to analyze the amount of funds available to distribute to shareholders before consideration of funds required for growth purposes.

**Payout Ratio** – is defined as dividends declared as a percentage of Distributable Earnings.

**Cash Gross Margin** – represents gross margin under IFRS adjusted to exclude non-cash expenses recorded in cost of sales including depreciation as it relates to assets associated with operations and operating related activities, and gains and losses on disposal of assets. Management believes that this metric assists in demonstrating the cash operating margin of the Company.

**Cash General and Administrative Costs** – represents general and administrative costs under IFRS adjusted to exclude non-cash expenses recorded in general and administrative costs such as stock-based compensation and depreciation and amortization as it

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relates to assets not associated with operations and operating related activities. Management believes that this metric assists in demonstrating the cash general and administrative expenses of the Company.

**Cash Interest Expense** – represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the Senior Notes and the Senior Facility. Management believes that this metric assists in demonstrating the cash interest expenses of the Company.

## OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

**Expansion Capital** – represents the amount of capital expenditure that has been 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.

**Canadian Market Share** – CES estimates its market share in Canada for its drilling fluids operations by comparing, on a semi-weekly basis, active rigs where CES was contracted to provide services to the total active rigs for Western Canada. The number of total active rigs for Western Canada is based on Canadian Association of Oilwell Drilling Contractors ("CAODC") published data for Western Canada.

**US Market Share** – CES estimates its market share in the US for its drilling fluids operations by comparing, on a semi-weekly basis, active rigs where CES was contracted to provide services to the total active land rigs in the United States. The number of total active rigs in the United States is based on the weekly land based Baker Hughes North American Rotary Rig Count.

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

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## FINANCIAL HIGHLIGHTS

| Summary Financial Results<br>(\$000's, except per share amounts) | Three Months Ended<br>June 30, |         |          | Six Months Ended<br>June 30, |         |          |
|------------------------------------------------------------------|--------------------------------|---------|----------|------------------------------|---------|----------|
|                                                                  | 2015                           | 2014    | % Change | 2015                         | 2014    | % Change |
| Revenue                                                          | <b>163,137</b>                 | 189,785 | (14%)    | <b>396,899</b>               | 421,095 | (6%)     |
| Gross margin                                                     | <b>36,264</b>                  | 48,264  | (25%)    | <b>93,495</b>                | 112,711 | (17%)    |
| Gross margin percentage of revenue                               | <b>22%</b>                     | 25%     |          | <b>24%</b>                   | 27%     |          |
| Income before taxes                                              | <b>178</b>                     | 11,761  | (98%)    | <b>16,687</b>                | 37,183  | (55%)    |
| per share – basic <sup>(2)</sup>                                 | <b>0.00</b>                    | 0.06    | (100%)   | <b>0.08</b>                  | 0.18    | (56%)    |
| per share – diluted <sup>(2)</sup>                               | <b>0.00</b>                    | 0.06    | (100%)   | <b>0.07</b>                  | 0.18    | (61%)    |
| Net income <sup>(3)</sup>                                        | <b>1,758</b>                   | 8,459   | (79%)    | <b>15,669</b>                | 27,951  | (44%)    |
| per share – basic <sup>(2)</sup>                                 | <b>0.01</b>                    | 0.04    | (75%)    | <b>0.07</b>                  | 0.14    | (50%)    |
| per share – diluted <sup>(2)</sup>                               | <b>0.01</b>                    | 0.04    | (75%)    | <b>0.07</b>                  | 0.13    | (46%)    |
| EBITDAC <sup>(1)</sup>                                           | <b>19,610</b>                  | 31,383  | (38%)    | <b>60,667</b>                | 74,906  | (19%)    |
| per share – basic <sup>(2)</sup>                                 | <b>0.09</b>                    | 0.15    | (40%)    | <b>0.28</b>                  | 0.37    | (24%)    |
| per share – diluted <sup>(2)</sup>                               | <b>0.09</b>                    | 0.15    | (40%)    | <b>0.27</b>                  | 0.35    | (23%)    |
| Funds Flow From Operations <sup>(1)</sup>                        | <b>15,865</b>                  | 24,724  | (36%)    | <b>50,629</b>                | 60,290  | (16%)    |
| per share – basic <sup>(2)</sup>                                 | <b>0.07</b>                    | 0.12    | (42%)    | <b>0.23</b>                  | 0.30    | (23%)    |
| per share – diluted <sup>(2)</sup>                               | <b>0.07</b>                    | 0.12    | (42%)    | <b>0.23</b>                  | 0.29    | (21%)    |
| Dividends declared                                               | <b>17,949</b>                  | 14,935  | 20%      | <b>35,797</b>                | 28,423  | 26%      |
| per share <sup>(2)</sup>                                         | <b>0.0825</b>                  | 0.0730  | 13%      | <b>0.1650</b>                | 0.1400  | 18%      |

#### Notes:

<sup>1</sup> Refer to "Non-GAAP Measures" for further detail.

<sup>2</sup> Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

<sup>3</sup> Represents net income attributable to the shareholders of the Company.

## OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and six months ended June 30, 2015, in comparison to the three and six months ended June 30, 2014, for CES are as follows:

- CES generated revenue of \$163.1 million during the three months ended June 30, 2015, compared to \$189.8 million for the three months ended June 30, 2014, a decrease of \$26.7 million or 14%. Year-to-date, revenue totaled \$396.9 million, compared to \$421.1 million for the six months ended June 30, 2014, representing a decrease of \$24.2 million or 6% on a year-over-year basis. Gross revenue for both Q2 and year-to-date was negatively affected by a continued drop-off in drilling activity, and an overall reduction in gross revenues due to price discounting across all business units in response to customer demands in the current low commodity price environment. Offsetting these negative factors was the year-over-year growth of the JACAM and PureChem business units and the positive translation effect on US source revenues due to the devaluation of the Canadian Dollar ("CAD") versus the US Dollar ("USD").
- Revenue generated in the US for the three months ended June 30, 2015 was \$127.8 million compared to \$137.6 million for the three months ended June 30, 2014, a decrease of \$9.8 million or 7%. JACAM had growth in production and specialty chemical sales, but this was offset by the US drilling fluids business being negatively impacted by lower activity levels and a difficult pricing environment. For the six month period ended June 30, 2015, US revenues were \$284.5 million compared to \$261.9 million for the same period in 2014, representing an increase of \$22.6 million, or 9%. The year-to-date revenue numbers were up primarily as a result of increased production and specialty chemicals sales by JACAM and the relatively stronger Q1 from the US drilling fluids business. For both the three and six months ended June 30, 2015, the Company's US revenues were also positively impacted on translation by weakness in CAD versus USD over the comparable periods in 2014.

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- Revenue generated in Canada for the three months ended June 30, 2015 was \$35.4 million compared to \$52.2 million for the three months ended June 30, 2014, a decrease of \$16.8 million or 32%. For the six month period ended June 30, 2015, revenue in Canada was \$112.4 million compared to \$159.2 million in the same period in 2014, representing a decline of \$46.8 million or 29%. For both the three and six month periods in 2015, gross revenue was negatively affected by the steep drop-off in drilling activity in Q1 2015 which continued its decline in Q2 2015 due to an extended spring break-up. In addition, CES responded proactively to its customers' demand for lower service costs in the current low commodity price environment and discounted pricing which in turn lowered gross revenues. Offsetting this was year-over-year growth in production and specialty chemical sales as PureChem continued to grow and take market share in Canada.
- For the three month period ended June 30, 2015, CES recorded gross margin of \$36.3 million or 22% of revenue, compared to gross margin of \$48.3 million or 25% of revenue generated in the same period last year. Year-to-date, CES recorded gross margin of \$93.5 million or 24% of revenue compared to \$112.7 million or 27% of revenue generated in the same period in 2014. The decline in gross margin for both periods is a result of the margin compression experienced in both Canada and US. CES responded to falling activity levels at the drill-bit by rationalizing costs and headcount, but these cost reduction initiatives did not completely offset the price compression experienced as a result of the discounting provided to customers across all business units. In addition, the Canadian business' gross margin was further negatively impacted by the absorption of fixed costs in the traditionally slower spring break-up and cost inflation of all USD inputs as CAD weakened considerably in the first half of 2015. In the current commodity price environment these higher costs could not be passed on to customers.
- EBITDAC for the three months ended June 30, 2015, was \$19.6 million as compared to \$31.4 million for the three months ended June 30, 2014, representing a decrease of \$11.8 million or 38%. CES recorded EBITDAC per share of \$0.09 (\$0.09 diluted) for the three months ended June 30, 2015 versus EBITDAC per share of \$0.15 (\$0.15 diluted) in 2014, a decrease of 40% (40% diluted). EBITDAC for the six months ended June 30, 2015, was \$60.7 million as compared to \$74.9 million for the six months ended June 30, 2014, representing a decrease of \$14.2 million or 19%. CES recorded EBITDAC per share of \$0.28 (\$0.27 diluted) for the six months ended June 30, 2015 versus EBITDAC per share of \$0.37 (\$0.35 diluted) in 2014, a decrease of 24% (23% diluted). Year over year, the Company's EBITDAC is negatively impacted by the factors discussed above.
- During the three months ended June 30, 2015, the Company recorded other income of \$5.8 million related to a recovery of deferred consideration payable. This recovery is with respect to the Venture Mud acquisition completed in July 2013. Based on financial metrics, the Company reversed 50% of the remaining amount accrued for this earn-out.
- CES recorded net income of \$1.8 million for the three month period ended June 30, 2015 as compared to \$8.5 million in the prior year. CES recorded net income per share of \$0.01 (\$0.01 diluted) for the three months ended June 30, 2015 versus \$0.04 (\$0.04 diluted) in 2014. For the year-to-date period, CES recorded net income of \$15.7 million compared to \$28.0 million in 2014. CES recorded net income per share of \$0.07 (\$0.07 diluted) for the six months ended June 30, 2015 versus \$0.14 (\$0.13 diluted) in 2014. The respective year-over-year decrease in net income resulted from the factors discussed above, and was further impacted by higher stock-based compensation expense and depreciation and amortization. These increased costs were offset by \$5.8 million in other income for the three months ended June 30, 2015, related to the recovery of deferred consideration payable.
- Despite the challenges noted above, CES' consumables chemical business model has responded as expected in the activity slow-down with significant conversion of working capital into cash. As at June 30, 2015, the Company had a cash balance of \$49.3 million and a draw of \$nil on the Senior Facility (December 31, 2014 – \$60.9 million, net of capitalized transaction costs of \$0.7 million). The maximum available draw on the Senior Facility at June 30, 2015, was \$200.0 million (December 31, 2014 - \$200.0 million). Further discussion on the Senior Facility is included in the Liquidity and Capital Resources section of this document.
- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of \$255.6 million as at June 30, 2015 (December 31, 2014 – \$307.1 million).
- During the second quarter of 2015, CES declared monthly dividends totalling \$0.0825 per share. This compares to \$0.073 per share for the same period in 2014. During the second quarter of 2015, the Company's Payout Ratio averaged 119% as compared to 63% in Q2 2014. Year-to-date, the Company's Payout Ratio averaged 72% as compared to 49% in 2014.



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### RESULTS FOR THE PERIODS

| (\$000's, except per share amounts)                       | Three Months Ended June 30, |         |           |          |
|-----------------------------------------------------------|-----------------------------|---------|-----------|----------|
|                                                           | 2015                        | 2014    | \$ Change | % Change |
| Revenue                                                   | 163,137                     | 189,785 | (26,648)  | (14%)    |
| Cost of sales                                             | 126,873                     | 141,521 | (14,648)  | (10%)    |
| Gross margin                                              | 36,264                      | 48,264  | (12,000)  | (25%)    |
| Gross margin percentage of revenue                        | 22%                         | 25%     |           |          |
| General and administrative expenses                       | 35,750                      | 31,758  | 3,992     | 13%      |
| Finance costs                                             | 6,152                       | 4,745   | 1,407     | 30%      |
| Other income                                              | (5,816)                     | -       | (5,816)   | (100%)   |
| Income before taxes                                       | 178                         | 11,761  | (11,583)  | (98%)    |
| Current income tax (recovery) expense                     | (2,153)                     | 1,604   | (3,757)   | (234%)   |
| Deferred income tax expense                               | 495                         | 1,698   | (1,203)   | (71%)    |
| Net income                                                | 1,836                       | 8,459   | (6,623)   | (78%)    |
| Less: net income attributable to non-controlling interest | 78                          | -       | 78        | 100%     |
| Net income attributable to shareholders of the Company    | 1,758                       | 8,459   | (6,701)   | (79%)    |
| Net income per share – basic <sup>(1)</sup>               | 0.01                        | 0.04    | (0.03)    | (75%)    |
| Net income per share – diluted <sup>(1)</sup>             | 0.01                        | 0.04    | (0.03)    | (75%)    |
| EBITDAC <sup>(2)</sup>                                    | 19,610                      | 31,383  | (11,773)  | (38%)    |

| Common Shares Outstanding    | 2015        | 2014        | % Change |
|------------------------------|-------------|-------------|----------|
| End of period <sup>(1)</sup> | 217,816,380 | 204,008,616 | 7%       |
| Weighted average             |             |             |          |
| - basic <sup>(1)</sup>       | 217,442,891 | 203,533,809 | 7%       |
| - diluted <sup>(1)</sup>     | 223,738,234 | 212,227,023 | 5%       |

| Financial Position (\$000's)                   | As at         |                   | % Change |
|------------------------------------------------|---------------|-------------------|----------|
|                                                | June 30, 2015 | December 31, 2014 |          |
| Net working capital                            | 255,575       | 307,081           | (17%)    |
| Total assets                                   | 1,022,161     | 1,088,080         | (6%)     |
| Long-term financial liabilities <sup>(3)</sup> | 316,154       | 378,662           | (17%)    |
| Shareholders' equity <sup>(4)</sup>            | 582,752       | 540,037           | 8%       |

#### Notes:

<sup>1</sup> Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

<sup>2</sup> Refer to the "Non-GAAP Measures" for further detail.

<sup>3</sup> Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.

<sup>4</sup> Represents shareholders' equity attributable to the shareholders of the Company.



## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

| (\$000's, except per share amounts)                       | Six Months Ended June 30, |         |           |          |
|-----------------------------------------------------------|---------------------------|---------|-----------|----------|
|                                                           | 2015                      | 2014    | \$ Change | % Change |
| Revenue                                                   | 396,899                   | 421,095 | (24,196)  | (6%)     |
| Cost of sales                                             | 303,404                   | 308,384 | (4,980)   | (2%)     |
| Gross margin                                              | 93,495                    | 112,711 | (19,216)  | (17%)    |
| Gross margin percentage of revenue                        | 24%                       | 27%     |           |          |
| General and administrative expenses                       | 71,975                    | 64,904  | 7,071     | 11%      |
| Finance costs                                             | 10,649                    | 10,624  | 25        | -        |
| Other income                                              | (5,816)                   | -       | (5,816)   | (100%)   |
| Income before taxes                                       | 16,687                    | 37,183  | (20,496)  | (55%)    |
| Current income tax (recovery) expense                     | (1,726)                   | 4,666   | (6,392)   | (137%)   |
| Deferred income tax expense                               | 2,500                     | 4,566   | (2,066)   | (45%)    |
| Net income                                                | 15,913                    | 27,951  | (12,038)  | (43%)    |
| Less: net income attributable to non-controlling interest | 244                       | -       | 244       | 100%     |
| Net income attributable to shareholders of the Company    | 15,669                    | 27,951  | (12,282)  | (44%)    |
| Net income per share – basic <sup>(1)</sup>               | 0.07                      | 0.14    | (0.07)    | (50%)    |
| Net income per share – diluted <sup>(1)</sup>             | 0.07                      | 0.13    | (0.06)    | (46%)    |
| EBITDAC <sup>(2)</sup>                                    | 60,667                    | 74,906  | (14,239)  | (19%)    |

| Common Shares Outstanding    | 2015        | 2014        | % Change |
|------------------------------|-------------|-------------|----------|
| End of period <sup>(1)</sup> | 217,816,380 | 204,008,616 | 7%       |
| Weighted average             |             |             |          |
| - basic <sup>(1)</sup>       | 216,790,878 | 202,758,916 | 7%       |
| - diluted <sup>(1)</sup>     | 222,506,650 | 211,485,557 | 5%       |

#### Notes:

<sup>1</sup> Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

<sup>2</sup> Refer to the "Non-GAAP Measures" for further detail.

#### Revenue and Operating Activities

CES generated gross revenue of \$163.1 million during the three months ended June 30, 2015, compared to \$189.8 million for the three months ended June 30, 2014, a decrease of \$26.7 million or 14%. Year-to-date, gross revenue totaled \$396.9 million, compared to \$421.1 million for the six months ended June 30, 2014, representing a decrease of \$24.2 million or 6% on a year-over-year basis.

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

| \$000's       | Revenue                     |         |                           |         |
|---------------|-----------------------------|---------|---------------------------|---------|
|               | Three Months Ended June 30, |         | Six Months Ended June 30, |         |
|               | 2015                        | 2014    | 2015                      | 2014    |
| Canada        | 35,355                      | 52,205  | 112,432                   | 159,152 |
| United States | 127,782                     | 137,580 | 284,467                   | 261,943 |
| Total         | 163,137                     | 189,785 | 396,899                   | 421,095 |

Revenue generated in Canada for the three months ended June 30, 2015 decreased by \$16.8 million or 32% compared to the three months ended June 30, 2014, from \$52.2 million to \$35.4 million. For the six month period ended June 30, 2015, revenue in Canada was \$112.4 million compared to \$159.2 million in the same period in 2014, representing a decline of \$46.8 million or 29%. Although PureChem continued to experience growth in production and specialty chemical sales year-over-year, the Company's Canadian drilling fluids sales were negatively impacted by the extended spring break-up, the fall in drilling activity in Canada and the discounted pricing given to its customers. As further outlined in the table below, industry rig counts were

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down 52% from Q2 2014 to Q2 2015 and down 46% from the six months ended June 30, 2014 compared to the same period in 2015. Correspondingly, the Company saw a 43% decline in Canadian Operating Days from Q2 2014 to Q2 2015 and a decline of 44% for the year-to-date comparative period. Despite the fall in drilling activity, the Company maintained its Canadian Market share of 30% in Q2 2015 and 33% year-to-date, compared to 25% in Q2 2014 and 32% for the six months ended June 30, 2014. The Company continues to anticipate that it will maintain its leading market share but is aware that future Canadian Market Share will continue to fluctuate with the rapidly changing rig count environment that is being driven by volatility in our customers' risk appetite and spending levels.

Included in revenue generated in Canada for the three and six months ended June 30, 2015, is \$1.2 million and \$4.2 million, respectively (2014 – \$3.2 million and \$9.5 million, respectively) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business is levered to drilling activity and as a result, also experienced a year-over-year drop in revenue. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

Revenue generated in the US for the three months ended June 30, 2015, decreased by \$9.8 million or 7% compared to the three months ended June 30, 2014, from \$137.6 million to \$127.8 million. Second quarter revenues in the US were negatively affected by reduced industry rig counts, as some of the Company's US customers who remained active in the first quarter responded to falling commodity prices and pulled back on spending and activity in the second quarter. This trend was consistent with the US average industry rig count that declined 34% from 1,330 rigs in Q1 2015 to 878 rigs in Q2 2015. Year over year, the US industry rig count fell by 51% from Q2 2014 to Q2 2015, and US Operating Days were down 41% for the comparable periods. Further, the Company experienced a full quarter of price discounting that began in Q1 2015 in response to customer demands in the current low commodity price environment. Offsetting these negative factors was year-over-year growth from increased production and specialty chemicals sales at JACAM. Although JACAM's overall sales continued to increase quarter-over-quarter, in response to industry conditions and customer demands, the Company also implemented discounting at JACAM, and these discounts reduced revenue and margins on the JACAM business in the quarter and going forward. In addition, fracking related chemical sales picked up in Q2 2015. Despite the fall in industry activity and US Operating Days, the Company's US Market Share was 10% during the three months ended June 30, 2015, an increase from 8% in the comparable period in 2014.

For the six month period ended June 30, 2015, US revenues were \$284.5 million compared to \$261.9 million for the same period in 2014, representing an increase of \$22.6 million, or 9%. The year-to-date revenue numbers were up primarily as a result of increased production and specialty chemicals sales by JACAM and the relatively stronger Q1 from the US drilling fluids business. Further, the Company's US revenues were also positively impacted on translation by weakness in CAD throughout 2015.

A summary of rig counts and Operating Days for the three and six months ended June 30, 2015, is as follows:

|                                            | Three Months Ended<br>June 30, |       |          | Six Months Ended<br>June 30, |       |          |
|--------------------------------------------|--------------------------------|-------|----------|------------------------------|-------|----------|
|                                            | 2015                           | 2014  | % Change | 2015                         | 2014  | % Change |
| Canadian industry rig count <sup>(1)</sup> | 95                             | 198   | (52%)    | 193                          | 360   | (46%)    |
| US industry rig count <sup>(2)</sup>       | 878                            | 1,796 | (51%)    | 1,104                        | 1,770 | (38%)    |

**Notes:**

<sup>1</sup> Based on the quarterly average of CAODC published monthly data for Western Canada.

<sup>2</sup> Based on the quarterly average of Baker Hughes published land data for the United States.

|                                     | Three Months Ended<br>June 30, |        |          | Six Months Ended<br>June 30, |        |          |
|-------------------------------------|--------------------------------|--------|----------|------------------------------|--------|----------|
|                                     | 2015                           | 2014   | % Change | 2015                         | 2014   | % Change |
| Canada                              | 2,537                          | 4,429  | (43%)    | 11,440                       | 20,499 | (44%)    |
| US                                  | 7,890                          | 13,359 | (41%)    | 19,536                       | 26,090 | (25%)    |
| Total Operating Days <sup>(1)</sup> | 10,427                         | 17,788 | (41%)    | 30,976                       | 46,589 | (34%)    |

**Notes:**

<sup>1</sup> Refer to "Operational Definitions" for further detail.

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Three and Six Months Ended June 30, 2015

For the three and six months ended June 30, 2015, CES' top customers accounted for the following percentage of total revenue:

|                                            | Three Months Ended |      | Six Months Ended |      |
|--------------------------------------------|--------------------|------|------------------|------|
|                                            | June 30,           |      | June 30,         |      |
|                                            | 2015               | 2014 | 2015             | 2014 |
| Top five customers as a % of total revenue | 30%                | 30%  | 29%              | 30%  |
| Top customer as a % of total revenue       | 15%                | 15%  | 14%              | 17%  |

### Cost of Sales and Gross Margin

Gross margin represents the profit earned on revenue after deducting the associated costs of sales including cost of products, operational labour, operational related depreciation, transportation, and all other operational related costs. Margins vary due to a change in the type of products sold, the relative product mix, well type, geographic area, and nature of activity (i.e. drilling fluids, production and specialty chemicals, trucking, environmental, etc.). Generally, labour costs have less of an impact on CES' margins than other cost elements such as product costs. Use of consultants and the variable component of compensation for employees provide CES with a means to better manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

For the three month period ended June 30, 2015, CES recorded gross margin of \$36.3 million or 22% of revenue, compared to gross margin of \$48.3 million or 25% of revenue generated in the same period last year. Year-to-date, CES recorded gross margin of \$93.5 million, or 24% of revenue, compared to \$112.7 million or 27% of revenue for the same period in 2014. For both comparative periods, the decline in gross margin is largely as a result of the margin compression experienced in both Canada and the US and is further emphasized by higher depreciation expense. The year-over-year increase in depreciation expense is primarily attributable to the Company's growing asset base. Depreciation expense recorded in the US was also negatively impacted on translation by weakness in CAD throughout 2015.

Depreciation, as it relates to assets associated with operations and operating related activities, and gains and losses on disposal of assets are included in cost of sales under IFRS. In order to calculate a Cash Gross Margin, these items are added back to the gross margin calculation. Cash Gross Margin is a more meaningful measure of the operating contribution to CES' free cash flow.

|                                                      | Three Months Ended |        | Six Months Ended |         |
|------------------------------------------------------|--------------------|--------|------------------|---------|
|                                                      | June 30,           |        | June 30,         |         |
| \$000's                                              | 2015               | 2014   | 2015             | 2014    |
| Gross margin                                         | 36,264             | 48,264 | 93,495           | 112,711 |
| as a percentage of revenue                           | 22%                | 25%    | 24%              | 27%     |
| Add back (deduct):                                   |                    |        |                  |         |
| Depreciation included in cost of sales               | 7,574              | 5,484  | 15,194           | 10,614  |
| Gain on disposal of assets included in cost of sales | (121)              | (86)   | (308)            | (322)   |
| Cash Gross Margin <sup>(1)</sup>                     | 43,717             | 53,662 | 108,381          | 123,003 |
| as a percentage of revenue                           | 27%                | 28%    | 27%              | 29%     |

### Notes:

<sup>1</sup> Refer to "Non-GAAP Measures" for further detail.

For the three month period ended June 30, 2015, CES recorded Cash Gross Margin of \$43.7 million or 27% of revenue, compared to Cash Gross Margin of \$53.7 million or 28% of revenue generated in the same period last year. For the year-to-date period ended June 30, 2015, CES recorded Cash Gross Margin of \$108.4 million, or 27% of revenue, compared to Cash Gross Margin of \$123.0 million or 29% of revenue in 2014. The decline in Cash Gross Margin is a result of the margin compression experienced in both Canada and US in the quarter. Beginning in the first quarter of 2015, CES responded to changes in drilling activity levels by rationalizing costs and headcount, however these cost reduction initiatives did not fully offset the price compression experienced from the discounting applied across all business units. In addition, the Canadian business' gross margin was negatively impacted by a protracted spring break-up and by cost inflation of all USD denominated inputs as CAD has weakened considerably in 2015. In the current commodity price environment, these higher costs could not be passed on to the

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customer. Year over year, the growth in the Company's production and specialty chemicals business has also mitigated the decline in gross margin as this business achieves higher margins than the Company's drilling related products and services.

### General and Administrative Expenses ("G&A")

The table below details the calculation of Cash General and Administrative Costs, removing stock-based compensation and depreciation and amortization, which are included in G&A under IFRS. Cash General and Administrative Costs is a more meaningful measure of the General and Administrative Expenses affecting CES' free cash flow.

| \$000's                                                                 | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|-------------------------------------------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                                                         | 2015                           | 2014   | 2015                         | 2014   |
| General and administrative expenses                                     | 35,750                         | 31,758 | 71,975                       | 64,904 |
| as a percentage of revenue                                              | 22%                            | 17%    | 18%                          | 15%    |
| Deduct non-cash expenses included in general & administrative expenses: |                                |        |                              |        |
| Stock-based compensation                                                | 6,506                          | 5,560  | 11,674                       | 9,747  |
| Depreciation & amortization                                             | 5,533                          | 3,661  | 11,140                       | 7,374  |
| Cash General and Administrative Costs <sup>(1)</sup>                    | 23,711                         | 22,537 | 49,161                       | 47,783 |
| as a percentage of revenue                                              | 15%                            | 12%    | 12%                          | 11%    |

#### Notes:

<sup>1</sup> Refer to "Non-GAAP Measures" for further detail.

For the three month period ended June 30, 2015, CES recorded Cash General and Administrative Costs of \$23.7 million or 15% of revenue, compared to Cash General and Administrative Costs of \$22.5 million or 12% of revenue generated in the same period last year. Year-to-date, CES recorded Cash General and Administrative Costs of \$49.2 million or 12% of revenue, compared to \$47.8 million or 11% of revenue in the same period in 2014. During the first quarter of 2015, the Company took necessary actions to reduce its G&A cost base in the current environment. These cost reduction measures included reduced headcounts, reduced compensation levels and reductions in discretionary spending. The reduction in Cash General and Administrative Costs as a result of these cost cutting measures was offset in the quarter by increased costs related to the growing production and specialty chemical businesses in both Canada and the US, for which Cash General and Administrative costs have increased in line with revenues. In addition, the Company incurred professional fees in the quarter related to specific tax and internal restructuring initiatives. Finally, for both the three and six month periods ending June 30, 2015, US source G&A was negatively impacted on translation by weakness in CAD versus USD. CES will continue to diligently manage its Cash General and Administrative Costs in light of current market conditions.

### Depreciation and Amortization

Depreciation and amortization expenses are included in both cost of sales and general and administrative expenses on the Company's consolidated statements of income and comprehensive income as follows:

| \$000's                                        | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|------------------------------------------------|--------------------------------|-------|------------------------------|--------|
|                                                | 2015                           | 2014  | 2015                         | 2014   |
| Depreciation recorded in cost of sales:        |                                |       |                              |        |
| Depreciation expense on property and equipment | 7,574                          | 5,484 | 15,194                       | 10,614 |
| Depreciation and amortization recorded in G&A: |                                |       |                              |        |
| Amortization expense on intangible assets      | 4,714                          | 3,155 | 9,503                        | 6,368  |
| Depreciation expense on property and equipment | 819                            | 506   | 1,637                        | 1,006  |
|                                                | 5,533                          | 3,661 | 11,140                       | 7,374  |
| Total depreciation and amortization expense    | 13,107                         | 9,145 | 26,334                       | 17,988 |

Depreciation of property and equipment and amortization of intangible assets totalled \$13.1 million for the three month period ended June 30, 2015, as compared to \$9.1 million for the same period in 2014. For the three months ended June 30, 2015, \$7.6

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million (Q2 2014 – \$5.5 million) of depreciation of property and equipment was included in cost of sales and \$5.5 million (Q2 2014 – \$3.7 million) of depreciation and amortization was included in G&A, of which \$4.7 million related to amortization of intangible assets (Q2 2014 – \$3.2 million). For the year-to-date period ending June 30, 2015, depreciation of property and equipment and amortization of intangible assets totalled \$26.3 million, as compared to \$18.0 million for the same period in 2014. Of this amount, \$15.2 million (2014 - \$10.6 million) was included in cost of sales and \$11.1 million (2014 - \$7.4 million) was included in G&A, of which \$9.5 million related to amortization of intangible assets (2014 - \$6.4 million). The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's continued capital investment in the expansion of its operations in Canada and the United States as well as the amortization of the Company's intangible assets associated with the acquisitions completed in the second half of 2014. Depreciation recorded in the US was also negatively impacted on translation by weakness in CAD versus USD in 2015.

### Finance Costs

For the three and six months ended June 30, 2015 and 2014, finance costs were comprised of the following:

| \$000's                                      | Three Months Ended June 30, |       | Six Months Ended June 30, |        |
|----------------------------------------------|-----------------------------|-------|---------------------------|--------|
|                                              | 2015                        | 2014  | 2015                      | 2014   |
| Foreign exchange (gain) loss                 | (188)                       | (198) | (462)                     | 220    |
| Financial derivative (gain) loss             | 11                          | (369) | (1,584)                   | (53)   |
| Amortization of debt issue costs and premium | 331                         | 259   | 663                       | 503    |
| Interest on debt, net of interest income     | 5,998                       | 5,053 | 12,032                    | 9,954  |
| Finance costs                                | 6,152                       | 4,745 | 10,649                    | 10,624 |

Finance costs were \$6.2 million for the three months ended June 30, 2015, as compared to \$4.7 million during the same period in 2014. Year-to-date, CES incurred finance costs of \$10.6 million, as compared to \$10.6 million during 2014. The change in finance costs year-over-year is outlined below.

### Interest expense

During the three and six months ended June 30, 2015, interest expense included in finance costs consists of interest expense on vehicle financing loans, capitalized lease facilities, the Senior Facility, and the Senior Notes. Amortization of capitalized deferred financing costs on both the Senior Notes and the Senior Facility are included in interest expense under IFRS, and in the table below is deducted from total interest expense in order to calculate Cash Interest Expense.

| \$000's                                        | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|------------------------------------------------|--------------------------------|-------|------------------------------|--------|
|                                                | 2015                           | 2014  | 2015                         | 2014   |
| Total interest expense, net of interest income | 6,329                          | 5,312 | 12,695                       | 10,457 |
| Deduct non-cash interest expense:              |                                |       |                              |        |
| Amortization of debt issue costs and premium   | 331                            | 259   | 663                          | 503    |
| Cash Interest Expense <sup>(1)</sup>           | 5,998                          | 5,053 | 12,032                       | 9,954  |

### Notes:

<sup>1</sup> Refer to "Non-GAAP Measures" for further detail.

The interest expense component of finance costs was \$6.3 million for the three months ended June 30, 2015, compared to \$5.3 million in the second quarter of 2014. For the six months ended June 30, 2015, the Company recorded interest expense of \$12.7 million as compared to \$10.5 million in the same period in 2014. The respective year-over-year increases are primarily as a result of additional interest expense on the \$75.0 million in Senior Notes issued in July 2014. Total interest expense relating to the Company's Senior Notes during the three and six months ended June 30, 2015 is \$5.4 million and \$10.6 million, respectively, as compared to \$4.2 million and \$8.3 million in the respective 2014 periods.

### Foreign exchange gains and losses

Finance costs for the three and six months ended June 30, 2015 include a net foreign exchange gain of \$0.2 million and \$0.5 million, respectively (2014 – \$0.2 million and a loss of \$0.2 million, respectively), primarily related to foreign exchange gains on the Company's USD denominated receivables and cash balances in Canada.

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#### *Derivative gains and losses*

Finance costs for the three months ended June 30, 2015, include net derivative losses of \$0.01 million (2014 – gains of \$0.4 million), relating to the Company's foreign currency derivative contracts. For the six month period ended June 30, 2015, finance costs included net derivative gains of \$1.6 million from Q1, compared to gains of \$0.05 million in 2014. As of June 30, 2015, the Company had a financial derivative asset of net \$0.5 million and a financial derivative liability of \$0.8 million relating to its outstanding derivative contracts (December 31, 2014 – net liability of \$0.6 million).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies. At June 30, 2015, the Company had entered into the following foreign exchange USD forward purchase contracts to manage its exposure to upcoming USD dividend payments and USD denominated purchases pursuant to its Canadian and US operations:

| Period         | Notional Balance<br>USD\$000's | Contract Type       | Settlement        | Average USDCAD<br>Exchange Rate |
|----------------|--------------------------------|---------------------|-------------------|---------------------------------|
| July 2015      | \$4,382                        | Deliverable Forward | Physical Purchase | \$1.2237                        |
| August 2015    | \$5,087                        | Deliverable Forward | Physical Purchase | \$1.2257                        |
| September 2015 | \$1,914                        | Deliverable Forward | Physical Purchase | \$1.2153                        |
| October 2015   | \$2,013                        | Deliverable Forward | Physical Purchase | \$1.2159                        |
| November 2015  | \$1,713                        | Deliverable Forward | Physical Purchase | \$1.2177                        |
| December 2015  | \$1,614                        | Deliverable Forward | Physical Purchase | \$1.2191                        |
| January 2016   | \$2,413                        | Deliverable Forward | Physical Purchase | \$1.2456                        |
| February 2016  | \$2,013                        | Deliverable Forward | Physical Purchase | \$1.2459                        |
| March 2016     | \$2,014                        | Deliverable Forward | Physical Purchase | \$1.2571                        |
| April 2016     | \$2,000                        | Deliverable Forward | Physical Purchase | \$1.2482                        |
| May 2016       | \$2,000                        | Deliverable Forward | Physical Purchase | \$1.2500                        |
| Total          | \$27,163                       |                     |                   | \$1.2321                        |

At June 30, 2015, the Company had entered into the following foreign exchange USD forward sale contracts to manage its exposure to upcoming USD denominated cash flows expected to, in part, fund a portion of any future monthly shareholder dividends paid out in CAD:

| Period         | Notional Balance<br>USD\$000's | Contract Type       | Settlement    | Average USDCAD<br>Exchange Rate |
|----------------|--------------------------------|---------------------|---------------|---------------------------------|
| July 2015      | \$1,400                        | Deliverable Forward | Physical Sale | \$1.1064                        |
| August 2015    | \$1,400                        | Deliverable Forward | Physical Sale | \$1.1196                        |
| September 2015 | \$1,400                        | Deliverable Forward | Physical Sale | \$1.1202                        |
| October 2015   | \$1,250                        | Deliverable Forward | Physical Sale | \$1.1446                        |
| November 2015  | \$600                          | Deliverable Forward | Physical Sale | \$1.1688                        |
| December 2015  | \$600                          | Deliverable Forward | Physical Sale | \$1.1693                        |
| Total          | \$6,650                        |                     |               | \$1.1306                        |

In addition to the forward sale contracts noted above, the Company had also entered into zero-cost collars with the option to sell US\$0.6 million on a monthly basis from November 2015 to July 2016, with USDCAD strike prices ranging from \$1.0770 to \$1.1083 and participation rates ranging from \$1.3500 to \$1.4000.

#### **Other Income**

During the three months ended June 30, 2015, the Company recorded other income of \$5.8 million related to a recovery of deferred consideration payable. This recovery is with respect to the Venture Mud acquisition completed in July 2013. Based on financial metrics, the Company reversed 50% of the remaining amount accrued for this earn-out.

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#### **Current and Deferred Income Taxes**

For the three and six months ended June 30, 2015 and 2014, income tax expense was comprised of the following:

| \$000's                               | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|---------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                       | 2015                        | 2014  | 2015                      | 2014  |
| Current income tax (recovery) expense | (2,153)                     | 1,604 | (1,726)                   | 4,666 |
| Deferred income tax expense           | 495                         | 1,698 | 2,500                     | 4,566 |
| Total income tax (recovery) expense   | (1,658)                     | 3,302 | 774                       | 9,232 |

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. During the three and six months ended June 30, 2015, the Company recorded an income tax recovery of \$1.7 million and an expense of \$0.8 million, respectively, as compared to an expense of \$3.3 million and \$9.2 million in 2014. The year-over-year decrease in current income tax expense is primarily related to decreased operating income in 2015, partially offset by realized foreign exchange gains and an increase in tax rates. The year-over-year decrease in deferred income tax expense is primarily due to a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

CES is currently under audit by the Canada Revenue Agency (the "CRA") with respect to its conversion from a publicly traded limited partnership to a public corporation on January 1, 2010. The CRA has issued a proposal letter to the Company with respect to its 2010, 2011 and 2012 taxation years, stating its intention to disallow non-capital losses of approximately \$57.7 million. The Company has not yet received any Notices of Reassessment relating to this matter. Management believes it will be successful in defending its position and as such, no amount has been accrued in the Company's June 30, 2015 financial statements with respect to this Conversion transaction. See also "Risks and Uncertainties – Income Tax Matters".

#### **Net Working Capital**

Despite the challenges of the current low commodity price environment on revenues and earnings, CES' consumables chemical business model has responded as expected in the activity slow-down with significant conversion of working capital into cash. At June 30, 2015, the Company had a cash balance of \$49.3 million and a draw of \$nil on the Senior Facility (December 31, 2014 – \$60.9 million, net of capitalized transaction costs of \$0.7 million). CES continued to maintain a strong statement of financial position or "balance sheet" as at June 30, 2015, with positive net working capital of \$255.6 million (December 31, 2014 - \$307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the first six months of 2015 and is comprised primarily of a \$131.2 million reduction in accounts receivable, a \$17.8 million reduction in prepaid expenses and a \$6.7 million reduction in inventory. These decreases to working capital are partially offset by a \$49.3 million increase in cash, a \$45.8 million reduction in accounts payable, a \$4.7 million decline in deferred acquisition consideration payable and a \$3.3 million increase in income taxes receivable. It should be noted that in light of current market conditions, CES has placed trade credit insurance over its 2015 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature.

#### **Total Current Assets**

Total current assets of CES decreased from \$445.1 million at December 31, 2014 to \$342.5 million at June 30, 2015. The decrease is primarily due to a reduction in accounts receivable by \$131.2 million and a reduction in prepaid expenses by \$17.8 million, offset by an increase in cash of \$49.3 million.

#### **Total Long-Term Assets**

Year-over-year, total long-term assets of CES increased by \$36.7 million to \$679.7 million at June 30, 2015 from \$643.0 million at December 31, 2014. The increase is primarily attributable to the increase in USD denominated long-term assets on translation as a result of the weakening CAD, as well as an increase in property and equipment of \$8.1 million (net of amortization and translation of USD denominated property and equipment).

#### **Long-Term Financial Liabilities**

CES had long-term debt totalling \$298.5 million at June 30, 2015, compared to \$360.0 million at December 31, 2014, a decrease of \$61.5 million. The year-over-year decrease in long-term debt is primarily as a result of the Company repaying 100% of the Company's draw on the Senior Facility during the period. Additional discussion relating to the Company's Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.



## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

At June 30, 2015, long-term debt liabilities were comprised of the following balances:

| \$000's                                | As at         |                   |
|----------------------------------------|---------------|-------------------|
|                                        | June 30, 2015 | December 31, 2014 |
| Senior Facility                        | -             | 61,585            |
| Senior Notes                           | 300,000       | 300,000           |
| Vehicle financing loan                 | -             | 628               |
| Equipment financing loans              | -             | 405               |
|                                        | 300,000       | 362,618           |
| Less net unamortized debt issue costs  | (5,091)       | (5,653)           |
| Less net unamortized debt premium      | 3,575         | 3,943             |
| Less current portion of long-term debt | -             | (884)             |
| Long-term debt                         | 298,484       | 360,024           |

At June 30, 2015, the Company had finance lease liabilities of \$13.3 million, net of the current portion of \$6.6 million, representing a total decrease of \$1.4 million from December 31, 2014. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

|                                                    |         |
|----------------------------------------------------|---------|
| \$000's                                            |         |
| Less than 1 year                                   | 4,124   |
| 1-5 years                                          | 9,826   |
| 5+ years                                           | 155     |
| Total lease payments                               | 14,105  |
| Amount representing implicit interest              | (844)   |
| Finance lease obligations                          | 13,261  |
| Less: current portion of finance lease obligations | (6,576) |
| Long-term finance lease obligations                | 6,685   |

During the three and six months ended June 30, 2015, the Company made long-term scheduled debt and lease repayments totalling \$1.9 million and \$4.9 million, respectively, on its finance leases, vehicle debt, and credit facilities.

### Shareholders' Equity

Shareholders' equity increased from \$540.0 million at December 31, 2014 to \$582.8 million at June 30, 2015. The increase in shareholders' equity is primarily attributable to a \$49.5 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries, \$15.7 million in net income, \$13.1 million relating to the issuance of equity under the Company's stock-based compensation plans, \$11.7 million in contributed surplus related to stock-based compensation expense, offset by \$35.8 million of dividends declared by the Company during the period and \$11.5 million reclassified from contributed surplus for stock-based compensation plans.

# Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

## QUARTERLY FINANCIAL SUMMARY

| (\$000's, except per share amounts)       | Three Months Ended |              |              |              |
|-------------------------------------------|--------------------|--------------|--------------|--------------|
|                                           | Jun 30, 2015       | Mar 31, 2015 | Dec 31, 2014 | Sep 30, 2014 |
| Revenue                                   | 163,137            | 233,762      | 278,672      | 272,938      |
| Gross margin                              | 36,264             | 57,231       | 74,864       | 77,916       |
| Net income <sup>(1)</sup>                 | 1,758              | 13,911       | 18,816       | 20,937       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.01               | 0.06         | 0.09         | 0.10         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.01               | 0.06         | 0.08         | 0.09         |
| EBITDAC <sup>(3)</sup>                    | 19,610             | 41,057       | 47,562       | 54,705       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.09               | 0.19         | 0.22         | 0.26         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.09               | 0.19         | 0.21         | 0.25         |
| Funds Flow From Operations <sup>(3)</sup> | 15,865             | 34,764       | 46,810       | 37,862       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.07               | 0.16         | 0.22         | 0.18         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.07               | 0.16         | 0.21         | 0.17         |
| Dividends declared                        | 17,949             | 17,848       | 17,745       | 17,056       |
| <i>per share</i> <sup>(2)</sup>           | 0.0825             | 0.0825       | 0.0825       | 0.0800       |
| <b>Shares Outstanding</b>                 |                    |              |              |              |
| End of period <sup>(2)</sup>              | 217,816,380        | 217,037,911  | 215,512,074  | 214,157,240  |
| Weighted average – basic <sup>(2)</sup>   | 217,442,891        | 216,131,621  | 214,875,446  | 212,194,898  |
| Weighted average – diluted <sup>(2)</sup> | 223,738,234        | 221,250,593  | 221,469,050  | 220,449,815  |

| (\$000's, except per share amounts)       | Three Months Ended |              |              |              |
|-------------------------------------------|--------------------|--------------|--------------|--------------|
|                                           | Jun 30, 2014       | Mar 31, 2014 | Dec 31, 2013 | Sep 30, 2013 |
| Revenue                                   | 189,785            | 231,310      | 200,569      | 182,274      |
| Gross margin                              | 48,264             | 64,447       | 55,060       | 50,250       |
| Net income                                | 8,459              | 19,492       | 12,837       | 12,600       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.04               | 0.10         | 0.06         | 0.06         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.04               | 0.09         | 0.06         | 0.06         |
| EBITDAC <sup>(3)</sup>                    | 31,383             | 43,522       | 36,482       | 32,590       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.15               | 0.22         | 0.18         | 0.17         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.15               | 0.21         | 0.17         | 0.16         |
| Funds Flow From Operations <sup>(3)</sup> | 24,724             | 35,566       | 25,006       | 26,842       |
| <i>per share— basic</i> <sup>(2)</sup>    | 0.12               | 0.18         | 0.12         | 0.14         |
| <i>per share— diluted</i> <sup>(2)</sup>  | 0.12               | 0.17         | 0.12         | 0.13         |
| Dividends declared                        | 14,935             | 13,488       | 12,730       | 11,491       |
| <i>per share</i> <sup>(2)</sup>           | 0.0730             | 0.0667       | 0.0633       | 0.0583       |
| <b>Shares Outstanding</b>                 |                    |              |              |              |
| End of period <sup>(2)</sup>              | 204,008,616        | 203,260,062  | 201,321,384  | 199,639,527  |
| Weighted average – basic <sup>(2)</sup>   | 203,533,809        | 201,975,414  | 200,743,647  | 195,638,078  |
| Weighted average – diluted <sup>(2)</sup> | 212,227,023        | 210,566,073  | 208,733,503  | 203,948,642  |

### Notes:

<sup>1</sup> Represents net income attributable to the shareholders of the Company.

<sup>2</sup> Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

<sup>3</sup> Refer to the "Non-GAAP Measures" for further detail.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

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#### *Seasonality of Operations*

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and last quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of expansion in the US and increased diversification of operations away from the drill-bit.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2015, the Company had net working capital of \$255.6 million (December 31, 2014 - \$307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the first six months of 2015 and is comprised primarily of a \$131.2 million reduction in accounts receivable, a \$17.8 million reduction in prepaid expenses and a \$6.7 million reduction in inventory. These decreases to working capital are partially offset by a \$49.3 million increase in cash, a \$45.8 million reduction in accounts payable, a \$4.7 million decline in deferred acquisition consideration payable and a \$3.3 million increase in income taxes receivable.

#### *Senior Facility*

On September 5, 2014, the Company entered into a new syndicated Senior Facility (the "Senior Facility") which allows the Company to borrow up to \$200.0 million. The Senior Facility has a term to maturity of three years, maturing on September 30, 2017 and may be extended by one year upon the agreement of the lenders and the Company. In addition, subject to certain terms and conditions, the Company may increase its Senior Facility by \$100.0 million to a maximum borrowing of \$300.0 million. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% to 1.25% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.50% to 2.25%. The Senior Facility has a standby fee ranging from 0.30% to 0.45%. The applicable pricing margins are based on a sliding scale of senior funded debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

At June 30, 2015, the Company had a draw of \$nil on the Senior Facility (December 31, 2014 – net draw of \$60.9 million, net of capitalized transaction costs of \$0.7 million). The maximum available draw on the Senior Facility at June 30, 2015, was \$200.0 million (December 31, 2014 - \$200.0 million).

In conjunction with the Senior Facility, CES is subject to the following financial covenants:

- The ratio of Total Net Funded Debt to EBITDA calculated on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis.
- The quarterly ratio of EBITDA to interest expense must be more than 3.00 to 1.00 calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms as set forth in the Senior Facility agreement are as follows:

- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterised as operating leases, and accrued interest not yet due and payable.
- Senior Funded Debt is defined as Total Net Funded Debt minus the principal amount owing on the Company's Senior Notes.

The above noted definitions are not recognized under IFRS and are provided strictly for the purposes of the debt covenant calculations.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

As at June 30, 2015, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements. The Company's debt covenants are calculated as follows:

| \$000's                                                     | As at         |                   |
|-------------------------------------------------------------|---------------|-------------------|
|                                                             | June 30, 2015 | December 31, 2014 |
| Total Net Funded Debt to EBITDA Ratio (Must be < 4.00:1.00) |               |                   |
| Total Net Funded Debt                                       | 313,261       | 377,313           |
| EBITDA for the four quarters ended                          | 162,934       | 177,172           |
| Ratio                                                       | 1.92          | 2.13              |
| Senior Funded Debt to EBITDA Ratio (Must be < 2.50:1.00)    |               |                   |
| Senior Funded Debt                                          | 13,261        | 77,313            |
| EBITDA for the four quarters ended                          | 162,934       | 177,172           |
| Ratio                                                       | 0.08          | 0.44              |
| EBITDA to Interest Expense (Must be > 3.00:1.00)            |               |                   |
| EBITDA for the four quarters ended                          | 162,934       | 177,172           |
| Interest Expense for the four quarters ended                | 24,201        | 22,133            |
| Ratio                                                       | 6.73          | 8.00              |

#### Other Indebtedness

In addition to the above, CES has the following loan and leasing facilities:

- Bank leasing facilities of which the Company had an outstanding balance owing on these lease facilities of \$0.3 million at June 30, 2015, as compared to \$0.7 million at December 31, 2014. The fixed interest rate leases are for terms ranging to March 2016 with interest on the lease facilities at a weighted average rate of 5.0%, resulting in monthly payments of approximately \$0.07 million.
- Non-bank vehicle and equipment finance leases are secured by each related asset at a weighted average interest rate of approximately 5.55%, and have termination dates ranging from July 2015 through October 2020. At June 30, 2015, outstanding vehicle and equipment finance lease obligations totalled \$12.9 million as compared to \$14.0 million at December 31, 2014.

The following table details the remaining contractual maturities of the Company's financial liabilities as of June 30, 2015:

| \$000's                                                             | Payments Due By Period <sup>(1)</sup> |                    |           |           |          | Total   |
|---------------------------------------------------------------------|---------------------------------------|--------------------|-----------|-----------|----------|---------|
|                                                                     | Less than 3 months                    | 3 months to 1 year | 1-2 years | 2-5 years | 5+ years |         |
| Accounts payable and accrued liabilities                            | 59,335                                | -                  | -         | -         | -        | 59,335  |
| Dividends payable <sup>(2)</sup>                                    | 5,990                                 | -                  | -         | -         | -        | 5,990   |
| Deferred acquisition consideration                                  | 13,759                                | -                  | 7,185     | 3,800     | -        | 24,744  |
| Senior Notes <sup>(4)</sup>                                         | -                                     | -                  | -         | 300,000   | -        | 300,000 |
| Interest on Senior Notes                                            | -                                     | 22,125             | 22,125    | 66,375    | -        | 110,625 |
| Finance lease obligations at fixed interest rates <sup>(3)</sup>    | 137                                   | 200                | -         | -         | -        | 337     |
| Finance lease obligations at floating interest rates <sup>(3)</sup> | 1,090                                 | 5,149              | 4,401     | 1,884     | 400      | 12,924  |
| Office operating leases                                             | 1,642                                 | 4,179              | 3,439     | 4,407     | -        | 13,667  |
| Total                                                               | 81,953                                | 31,653             | 37,150    | 376,466   | 400      | 527,622 |

#### Notes:

<sup>1</sup> Payments denominated in foreign currencies have been translated using the appropriate June 30, 2015 exchange rate

<sup>2</sup> Dividends declared as of June 30, 2015

<sup>3</sup> Long-term debt and finance lease obligations reflect principal payments and excludes any associated interest portion

<sup>4</sup> The Senior Notes are due on April 17, 2020

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans and commitments. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. In the event that additional capital is required, based on the market conditions at the time, it may be difficult to issue additional equity or increase credit capacity and the cost of any new capital may exceed historical norms and/or impose more stringent covenants and/or restrictions on CES. CES continues to focus on evaluating credit capacity, credit counterparties, and liquidity to ensure its ability to be able to meet its ongoing commitments and obligations.

#### **Cash Flows from Operating Activities**

For the three months ended June 30, 2015, cash flow from operating activities was an inflow of \$117.3 million compared to \$54.9 million during the three months ended June 30, 2014, with the increase being primarily as a result of the change in non-cash working capital. Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows.

For the three months ended June 30, 2015, Funds Flow From Operations was \$15.9 million, compared to a \$24.7 million for the three months ended June 30, 2014.

| \$000's                                      | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |        |
|----------------------------------------------|--------------------------------|----------|------------------------------|--------|
|                                              | 2015                           | 2014     | 2015                         | 2014   |
| Cash provided by operating activities        | 117,323                        | 54,896   | 174,535                      | 50,356 |
| Adjust for:                                  |                                |          |                              |        |
| Change in non-cash operating working capital | (101,458)                      | (30,172) | (123,906)                    | 9,934  |
| Funds Flow From Operations <sup>(1)</sup>    | 15,865                         | 24,724   | 50,629                       | 60,290 |

#### **Notes:**

<sup>1</sup> Refer to the "Non-GAAP Measures" for further detail.

#### **Cash Flows from Investing Activities**

For the three months ended June 30, 2015, net cash outflows from investing activities totalled \$11.8 million, representing a decrease from the \$16.9 million outflow from investing activities during the three months ended June 30, 2014.

For the three months ended June 30, 2015, \$12.4 million was spent on property and equipment (net of \$1.3 million in vehicle financing and leases). During the quarter, CES had \$0.8 million of additions related to Maintenance Capital and \$13.1 million of additions related to Expansion Capital including vehicle financing. Notable expansion additions during the quarter ended June 30, 2015 include: \$5.3 million for warehouse and facilities, \$3.1 million in trucks and trailers, \$1.9 million for machinery and field equipment, \$1.3 million in leasehold improvements, \$1.0 million in vehicles, and \$0.5 million for other expansion additions.

Expansion Capital expenditures in Q2 2015 were primarily related to the ongoing construction of the barite grinding facility in Corpus Christi, Texas; the continued expansion of JACAM facilities; and the construction of a new laboratory and warehouse facility in Midland, Texas that will service both the drilling fluids and production and specialty chemicals businesses in West Texas.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

Details of investment made in property and equipment are as follows:

| \$000's                                            | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|----------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                    | 2015                           | 2014    | 2015                         | 2014    |
| Expansion Capital <sup>(1)</sup>                   | 13,105                         | 18,251  | 26,639                       | 33,011  |
| Maintenance Capital <sup>(1)</sup>                 | 781                            | 1,136   | 998                          | 2,062   |
| Total investment in property and equipment         | 13,886                         | 19,387  | 27,637                       | 35,073  |
| Asset financing and leases                         | (1,319)                        | (2,817) | (1,833)                      | (5,904) |
| Capital expenditures                               | 12,567                         | 16,570  | 25,804                       | 29,169  |
| Change in non-cash investing working capital       | (186)                          | (170)   | 1,114                        | 284     |
| Cash used for investment in property and equipment | 12,381                         | 16,400  | 26,918                       | 29,453  |

#### Notes:

<sup>1</sup> Refer to the "Operational Definitions" for further detail.

In general, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2015, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately \$50.0 million, of which an estimated \$6.0 million will be maintenance capital additions, and an estimated \$44.0 million will be for discretionary expansion capital additions of which an estimated \$40.0 million has been either spent in the first six months of 2015 or is committed to be spent over the remainder of calendar 2015. The expected expansion capital expenditures are not all committed at this time and could be reduced if required. The expected expansion capital expenditures will be used to further expand CES' business platform and to further vertically integrate its operations.

#### Cash Flows from Financing Activities

For the three month period ended June 30, 2015, cash flows from financing activities totalled a cash outflow of \$55.8 million compared to \$38.0 million during the comparative prior year period. This year-over-year increase is primarily due to the repayment of all outstanding draws on the Senior Facility during the quarter which is evidence of working capital coming back to the Company as a result of the slowdown in drilling activity, as well as an increase in dividends paid.

CES calculated Distributable Earnings based on Funds Flow From Operations and the Payout Ratio based on the level of dividends declared as follows:

| \$000's                                      | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |         |
|----------------------------------------------|--------------------------------|----------|------------------------------|---------|
|                                              | 2015                           | 2014     | 2015                         | 2014    |
| Cash provided by operating activities        | 117,323                        | 54,896   | 174,535                      | 50,356  |
| Adjust for:                                  |                                |          |                              |         |
| Change in non-cash operating working capital | (101,458)                      | (30,172) | (123,906)                    | 9,934   |
| Funds Flow From Operations <sup>(1)</sup>    | 15,865                         | 24,724   | 50,629                       | 60,290  |
| Maintenance Capital <sup>(2)</sup>           | (781)                          | (1,136)  | (998)                        | (2,062) |
| Distributable Earnings <sup>(1)</sup>        | 15,084                         | 23,588   | 49,631                       | 58,228  |
| Dividends declared                           | 17,949                         | 14,935   | 35,797                       | 28,423  |
| Payout Ratio <sup>(1)</sup>                  | 119%                           | 63%      | 72%                          | 49%     |

#### Notes:

<sup>1</sup> Refer to the "Non-GAAP Measures" for further detail.

<sup>2</sup> Refer to the "Operational Definitions" for further detail.

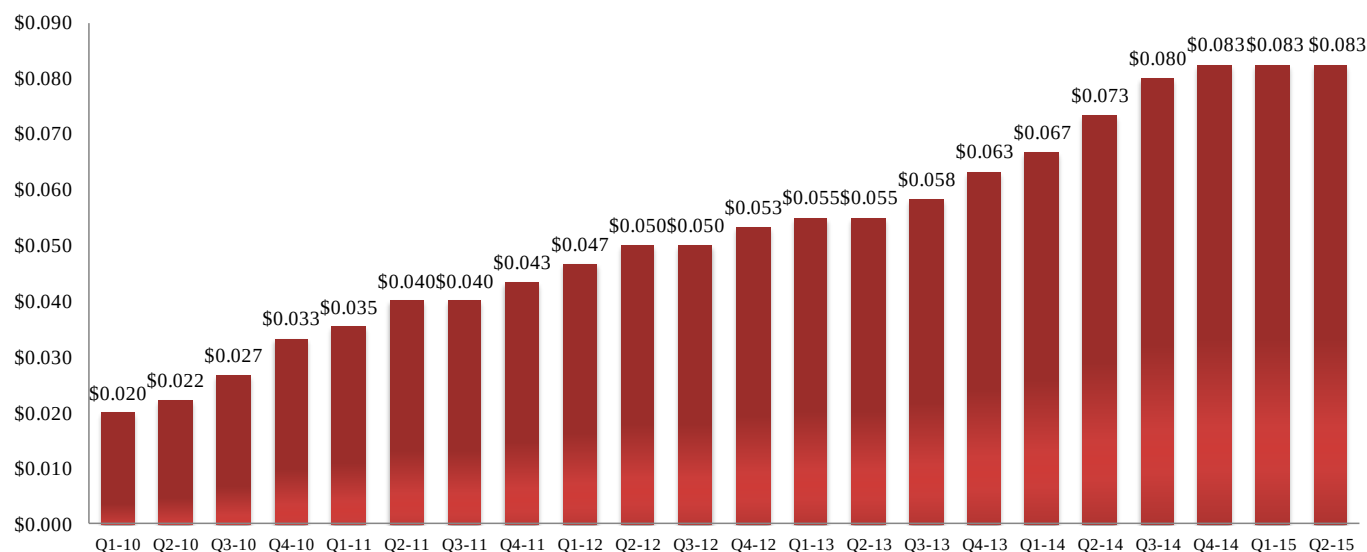
Distributable Earnings were \$15.1 million for the three months ended June 30, 2015, compared with \$23.6 million for the same period in 2014. During the three months ended June 30, 2015, CES declared monthly dividends of \$0.0275 per share for a total of \$0.0825 per share for the quarter. During the second quarter of 2015, the Payout Ratio was 119% compared to 63% for the second quarter of 2014. Year-to-date, the Payout Ratio was 72% compared to 49% in 2014.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

#### QUARTERLY DIVIDEND GROWTH<sup>1</sup>



#### Notes:

<sup>1</sup> Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.

#### Dividend Policy

The Company declared dividends to holders of common shares for the six months ended June 30, 2015, as follows:

| <i>\$000's except per share amounts</i>    | <b>Dividend<br/>Record Date</b> | <b>Dividend<br/>Payment Date</b> | <b>Per Common<br/>Share</b> | <b>Total</b>  |
|--------------------------------------------|---------------------------------|----------------------------------|-----------------------------|---------------|
| January                                    | Jan 30                          | Feb 13                           | \$0.0275                    | <b>5,939</b>  |
| February                                   | Feb 27                          | Mar 13                           | \$0.0275                    | <b>5,940</b>  |
| March                                      | Mar 31                          | Apr 15                           | \$0.0275                    | <b>5,969</b>  |
| April                                      | Apr 30                          | May 15                           | \$0.0275                    | <b>5,976</b>  |
| May                                        | May 29                          | Jun 15                           | \$0.0275                    | <b>5,983</b>  |
| June                                       | Jun 30                          | Jul 15                           | \$0.0275                    | <b>5,990</b>  |
| Total dividends declared during the period |                                 |                                  | \$0.1650                    | <b>35,797</b> |

Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary significantly based on the Company's financial performance. During periods of relatively strong financial performance, typically associated with higher activity levels, dividends declared as a percentage of net income and cash flow from operations will decrease, and likewise, during periods of relatively weaker financial performance dividends declared as a percentage of net income and cash flow from operations will increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to relatively weaker financial performance or changes in the level of working capital, dividends may be funded by available cash or through CES' credit facilities.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, despite the challenging oil price environment which is negatively impacting activity levels and revenue in the near-term, CES intends to continue to make cash dividends to shareholders, but these dividends are not guaranteed. In addition, future expansion, investments, and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

increased. Over the long-term, CES' business model has historically shown it can support a large proportion of cash flow from operations being paid out as a dividend as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated.

Subsequent to June 30, 2015, the Company declared dividends to holders of common shares in the amount of \$0.0275 per common share payable on August 14, 2015, for shareholders of record on July 31, 2015.

#### Shareholders' Equity

As of June 30, 2015, CES had a total of 217,816,380 common shares outstanding. As of the date of this MD&A, CES had a total of 217,934,353 common shares outstanding.

#### Stock-based Compensation

As at June 30, 2015, a total of 21,781,638 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 4,726,655 common shares remained available for grant.

##### a) Share Rights Incentive Plan ("SRIP")

At June 30, a total of 11,517,544 Share Rights were outstanding (December 31, 2014 – 6,344,044) at a weighted average exercise price of \$6.82 (assuming all SRIP's are exercised at their respective original exercise price) of which 2,365,044 were exercisable. As of the date of this MD&A, an aggregate of 11,487,544 Share Rights remaining outstanding, of which 2,455,044 are exercisable.

##### b) Restricted Share Unit Plan ("RSU")

At June 30, 2015, a total of 5,537,440 Restricted Share Units were outstanding (December 31, 2014 – 4,093,785) at a weighted average issuance price of \$6.39, none of which were vested. As of the date of this MD&A, an aggregate of 5,452,328 Restricted Share Units remain outstanding, none of which have vested.

#### Commitments

At June 30, 2015, CES had the following additional commitments not included as liabilities on its statement of financial position:

| \$000's                  | 2015 - 6 months | 2016  | 2017  | 2018  | 2019 | Total  |
|--------------------------|-----------------|-------|-------|-------|------|--------|
| Office and facility rent | 3,307           | 4,444 | 2,953 | 2,099 | 864  | 13,667 |

*Payments denominated in foreign currencies have been translated using the appropriate June 30, 2015 exchange rate*

As of the date of this MD&A, given its financial position, CES fully anticipates it will be able to meet these commitments.

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

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, and the possible disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2014, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2014.



## **RECENT ACCOUNTING PRONOUNCEMENTS**

There were no new or amended accounting standards or interpretations issued during the six months ended June 30, 2015 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2014.

## **CORPORATE GOVERNANCE**

### ***Disclosure Controls and Procedures ("DC&P")***

DC&P have been designed to provide reasonable assurance that information required to be reported by CES is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of CES, 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.

### ***Internal Controls over Financial Reporting ("ICFR")***

Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes to CES' internal controls over financial reporting during the six months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

It should be noted that while the President and Chief Executive Officer and Chief Financial Officer believe that CES' disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR 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.

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2014 Annual Report, CES' Annual Information Form dated March 12, 2015 in respect of the year ended December 31, 2014, and CES' Information Circular in respect of the June 18, 2015 Annual General and Special Meeting of shareholders each of which are available on CES' SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS**

CES' customers are primarily North American oil and gas producers. Activity in the oil and gas industry is cyclical in nature. CES is directly affected by fluctuations in the level and complexity of oil and natural gas exploration and development activity carried on by its clients. In Canada, drilling activity is seasonal and, in turn, throughout North America it is directly affected by a variety of factors including: weather; natural disasters such as floods, tornados, and hurricanes; oil, natural gas, and natural gas liquids commodity prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or an adverse change in government regulations could have a significant negative impact on exploration and development drilling and completion activity in North America and, in turn, demand for CES' products and services.

As a provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield, the volatility in activity experienced at the drill-bit and completion stages is somewhat muted by the long-term and less variable revenue generated by CES at the pump-jack and wellhead during the production stage and in the mid-stream, pipeline and transportation phases. As CES grows these facets of its business, the predictability of its earnings should also increase. The revenue and general market consumption of consumable chemicals in these market segments is more stable and predictable than the drilling fluids market, and by all accounts the overall market continues to grow. However, CES is a relatively new entrant and is much smaller than the larger more established competitors in this space. This presents opportunities as well as risks to the overall success CES may achieve in the production and specialty chemical space.

Oil, natural gas liquids and natural gas commodity prices in North America continue to see volatility, and in general all trade at discounts to comparable world-wide bench-marks. This increases risk to CES' customers and reduces their available cash flow. In particular, West Texas Intermediate ("WTI") crude prices had been on a steady decline since mid-2014 reaching a low in Q1 2015 of \$44/bbl on market concerns of over-supply and OPEC's decision in November 2014 not to support oil prices through production cuts. In Q2 2015, WTI rose above \$60/bbl but in Q3 the price of WTI has retraced to the low of \$44/bbl experienced in Q1. Prices are likely to continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward curves for 2016 and 2017 are trading around \$55/bbl which is far below the \$100/bbl

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

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pricing enjoyed by operators between July 2013 and July 2014. In addition, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets with regulatory approvals of several proposed pipeline projects in limbo and potential changes to the crude by rail industry in the face of several derailments. Natural gas prices have remained relatively weak since their peak in 2008. Since mid-2012, there had been a modest recovery in natural gas prices in North America. However, cooler summer weather in 2014, followed up by a warmer winter heating season has resulted in higher gas storage inventory levels which has seen a corresponding retreat in natural gas prices throughout North America. The futures curve for Nymex Henry Hub is trading just over \$3.00 per MMBtu for 2015 and 2016. In response to overall low commodity prices, drilling activity has slowed considerably and pricing pressure from customers has increased. Spring break-up in WCSB came early in 2015 and activity in WCSB has lagged in Q3. In the US, the drilling rig count had been consistently falling week over week throughout Q2 but it appears to have found a near-term bottom and it is unclear for how long it may remain at this level.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and fourth quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. In 2015, the early spring break-up in Canada has been protracted and due to financial constraints of our customers, has outlasted the typical weather constraints on a resumption of drilling activity. As the drilling fluids business expands in the US, and as the production focused and infrastructure focused chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

The ability of CES to sell and expand its services will also depend upon the ability to attract and retain qualified personnel as needed. Over the past few years, the demand for skilled employees has been high and the supply has been limited. The recent slow-down in activity has loosened up the labour markets but top talent is still a key priority to attract and retain. The unexpected loss of CES' key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on CES' results. CES addresses this risk by:

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

CES takes its health, safety, and environmental responsibilities seriously and has instituted standards, policies, and procedures to address these risks. In addition, CES maintains insurance policies with respect to its operations providing coverage over what it considers to be material insurable risks.

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, reviewing and actively following up on older accounts, and insuring trade credit risks where deemed appropriate. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if the current low oil and natural gas price environment persists, and if access to capital markets remains weak for CES' customers, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk. It should be noted that in light of current market conditions, CES has placed trade credit insurance over its 2015 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature.

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. The Alberta Government has recently announced a review of its royalty regime and the timing and outcome of that review and its impact on CES' business is indeterminable at this time. In addition, the potential for future changes in these and other jurisdictions is a risk for the oilfield services sector.

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CES' US footprint and size of operations continues to increase. US expansion provides CES with upside potential and reduces certain risks through diversification of operations. It also exposes the Company to additional specific risks including: integration risks of the acquired businesses; currency risk with added exposure to fluctuations in the USD; regulatory risks associated with environmental concerns; and the future impact of increased regulatory requirements.

The volatility in the financial markets over the past several years has impacted the general availability of both credit and equity financing in the marketplace. Economic and sovereign debt issues are ongoing in Europe and, although there is more optimism for stronger economic growth in the US, the strength and duration of the recovery remains uncertain. Despite CES' successful issuance of the Additional Senior Notes and the equity Offering completed in July 2014, since the fall of 2014 there has been a retreat in the energy equity and debt markets as a result of low commodity prices. As such, it may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. CES is also reliant on its Senior Facility to fund working capital and other growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under any of its debt facilities.

The Company and its various subsidiaries are subject to corporate income and other taxation in various federal, provincial and state jurisdictions in Canada, the US, and Luxembourg. For the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audits and reassessments by the various taxation authorities and where applicable, the Company adjusts previously recorded tax expense to reflect audit adjustments. We believe we have adequately provided for all income tax obligations. However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities or new tax legislation could result in an increase or decrease to the Company's provision for income taxes. Although not quantifiable at this time, these differences could potentially have a material impact on future net income and the Company's effective tax rate.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation.

In August 2014, the Company received a proposal letter from the CRA which stated its intent to challenge the Canadian tax consequences of the Conversion. The CRA's position is based on the acquisition of control rules and the general anti-avoidance rules in the *Income Tax Act* (Canada). CES provided a response to the proposal letter in September 2014 as well as a further submission in June 2015, and to date, no Notice of Reassessment has been received. If the CRA issues a Notice of Reassessment for each of the 2010, 2011 and 2012 taxation years, the Company would be required to pay 50 percent of the tax liability claimed by the CRA despite the appeal of these reassessments. If the reassessments are maintained on appeal, the estimated tax liability for the three years since the Conversion would amount to approximately \$16.0 million in cash taxes. CES would have 90 days from the date of the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with the Company's Notice of Objection, or does not respond to it within 90 days, CES will have the option to file an appeal with the Tax Court of Canada. If the Company is successful in appealing its reassessment in the Tax Court of Canada, then any amounts paid to the CRA in connection with the reassessment will be refunded plus interest. In the event CES is unsuccessful, then any remaining taxes payable plus interest and penalties will have to be remitted.

The impact of the CRA proposal on CES' tax provision has been considered by management and the Company remains confident that the tax returns as filed correctly reported the Canadian tax consequences of the Conversion transaction. If the proposed reassessments are issued by the CRA, management intends to vigorously defend CES' tax filing position. No amount has been accrued in the Company's June 30, 2015 financial statements related to the Conversion.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2015

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Reference should be made to CES' Annual Information Form dated March 12, 2015 for the year ended December 31, 2014, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

Q2 2015 results are reflective of the current difficult industry conditions with reduced activity levels lowering revenue and price discounting resulting in margin compression. There is limited visibility to a turnaround in the current low oil price and weak natural gas price environment. As such, CES remains cautious with its outlook for the remainder of 2015 and into 2016. The end result is CES will do less drilling fluids work and will do all of its work for less money. CES' production and specialty chemical business should see growth in this downturn as it is expected that PureChem and JACAM will continue to take market share in a market that will continue to grow. With a strong balance sheet, CES is well positioned to weather the current downturn in oilfield activity. CES will focus on retaining accounts, rationalizing costs, monitoring and capturing opportunities and making strategic investments as required to position the business to capitalize on the next positive cycle.

Through both its JACAM and PureChem divisions, CES has vertically integrated manufacturing capabilities with unutilized throughput at both its Sterling, Kansas and Carlyle, Saskatchewan plants. CES has a full suite of technically advanced solutions of production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. These markets are less volatile and are growing on a year-over-year basis as the volumes of produced hydrocarbons and the associated produced water increases.

As challenges faced by the oil and gas industry become more complex, advanced technologies are becoming increasingly important in driving success for operators. CES will continue to invest in innovation to be a leader in technology advancements in the consumable oilfield chemical markets. With the addition of JACAM's state of the art laboratory in Sterling, Kansas, CES now operates four separate lab facilities across North America which also includes Houston, Texas, Calgary, Alberta, and Carlyle, Saskatchewan. Additionally, CES is building new laboratory facilities in Calgary, Alberta, Houston and Midland, Texas. CES also leverages third party partner relationships to drive innovation.

CES believes over time it can grow its market share within each of these sub-segments of the oilfield consumable chemical market. CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share. CES believes that its unique value proposition in this increasingly complex operating environment makes it the premier independent provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield in North America.

Despite the activity pullback as a result of low oil and natural gas prices, CES remains very optimistic about the long-term growth prospects of its business. The integration of JACAM with the overall business is progressing successfully. JACAM products have been introduced into Canada on both the drilling fluids side and through PureChem with very positive results. In the US, steps have been undertaken to support AES operations with JACAM manufactured materials and to expand JACAM's market penetration via the established AES platform.

From a manufacturing perspective, CES is undertaking further vertical integration initiatives at the JACAM facility with the build-out of nitrile capabilities to be completed in Q4 2015 and hydrogenation capabilities in early 2016. CES also expects to commission the new barite grinding facility in Corpus Christi, Texas in Q3 2015 which will further vertically integrate the US drilling fluids business.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business. The Environmental Services division is focused on expanding its operational base in the WCSB by specializing in water management issues and is pursuing opportunities in the oil sands and horizontal drilling markets.

Although activity levels at EQUAL Transport will be down in 2015, it is expected this business will continue to be instrumental in supporting the core businesses and be economically viable.

On the corporate level, CES continually assesses integrated business opportunities that will keep CES competitive and enhance profitability. All acquisitions must meet CES' stringent financial and operational metrics.

As always, and particularly in this difficult environment, CES will closely manage its dividend levels and capital expenditures in order to preserve its financial strength, its low capital re-investment model and its strong liquidity position.

**Canadian Energy Services & Technology Corp.**

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Three and Six Months Ended June 30, 2015

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**ADDITIONAL INFORMATION**

Additional information related to CES can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Information is also accessible on CES's web site at [www.canadianenergyservices.com](http://www.canadianenergyservices.com).

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis Information

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#### STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange  
Trading Symbol: CEU

#### OTCQX

Trading Symbol: CESDF

#### BOARD OF DIRECTORS

Kyle D. Kitagawa<sup>1,4</sup>  
Chairman

D. Michael G. Stewart<sup>1,4</sup>

John M. Hooks<sup>2,4</sup>

Rodney L. Carpenter<sup>3</sup>

Burton J. Ahrens<sup>1,4</sup>

Colin D. Boyer<sup>2,3</sup>

Philip J. Scherman<sup>1</sup>

Thomas J. Simons

Jason H. West<sup>3</sup>

<sup>1</sup>Member of the Audit Committee

<sup>2</sup>Member of the Compensation Committee

<sup>3</sup>Member of the Health, Safety and Environment  
Committee

<sup>4</sup>Member of the Governance Committee

#### OFFICERS

Thomas J. Simons  
President & Chief Executive Officer

Craig F. Nieboer, CA  
Chief Financial Officer

Kenneth E. Zinger  
Canadian President & Chief Operating Officer

Kenneth D. Zandee  
Vice President, Marketing

Jason D. Waugh  
Vice President

James M. Pasioka  
Corporate Secretary

#### AUDITORS

Deloitte LLP  
Chartered Accountants, Calgary, AB

#### BANKERS

Scotiabank Canada, Calgary, AB

#### SOLICITORS

McCarthy Tetrault, LLP, Calgary, AB  
Crowe & Dunlevy, Oklahoma City, OK

#### REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.  
Calgary, AB and Toronto, ON

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