Canadian Energy
SERVICES

Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2016 and 2015

Canadian Energy Services & Technology Corp.
Condensed Consolidated Statements of Financial Position (unaudited)
(stated in thousands of Canadian dollars)

	As at	
	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	**111,133**	-
Accounts receivable	**89,800**	157,988
Financial derivative asset (note 11)	**11**	2,453
Income taxes receivable	**15,205**	18,022
Inventory	**105,751**	121,258
Prepaid expenses and deposits	**4,799**	12,882
	326,699	312,603
Property and equipment (note 3)	**250,908**	269,500
Intangible assets	**83,787**	97,286
Deferred income tax asset	**15,724**	15,069
Other assets (note 4)	**4,875**	5,338
Goodwill	**220,174**	231,741
	902,167	931,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**45,102**	60,169
Financial derivative liability (note 11)	**1,836**	93
Dividends payable (note 9)	**635**	3,968
Income taxes payable	**892**	802
Current portion of deferred acquisition consideration	**5,791**	9,897
Current portion of finance lease obligations	**5,287**	7,452
	59,543	82,381
Deferred acquisition consideration	**3,800**	3,800
Long-term debt (note 5)	**298,559**	299,577
Finance lease obligations	**5,541**	6,523
Deferred income tax liability	**6,427**	7,608
	373,870	399,889
Commitments (note 10)		
Shareholders' equity		
Common shares (note 7)	**589,842**	484,932
Contributed surplus	**22,628**	29,430
Deficit	**(224,012)**	(167,994)
Accumulated other comprehensive income	**139,839**	185,280
	528,297	531,648
	902,167	931,537

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

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income (unaudited)
(stated in thousands of Canadian dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Revenue	**97,733**	163,137	**234,882**	396,899
Cost of sales	**81,979**	126,873	**195,218**	303,404
Gross margin	**15,754**	36,264	**39,664**	93,495
General and administrative expenses	**31,929**	35,750	**70,945**	71,975
Operating (loss) profit	**(16,175)**	514	**(31,281)**	21,520
Finance costs	**6,535**	6,152	**16,758**	10,649
Other (income) loss	**(50)**	(5,816)	**181**	(5,816)
(Loss) income before taxes	**(22,660)**	178	**(48,220)**	16,687
Current income tax (recovery) expense (note 6)	**4,252**	(2,153)	**2,706**	(1,726)
Deferred income tax (recovery) expense	**(1,315)**	495	**(1,736)**	2,500
Net (loss) income	**(25,597)**	1,836	**(49,190)**	15,913
Net (loss) income attributable to:				
Shareholders of the Company	**(25,597)**	1,758	**(49,190)**	15,669
Non-controlling interest	**-**	78	**-**	244
	(25,597)	1,836	**(49,190)**	15,913
Other comprehensive (loss) gain (items that may be subsequently reclassed to profit and loss):				
Unrealized foreign exchange (loss) gain on translation of foreign operations attributable to:				
Shareholders of the Company	**(4,428)**	(11,306)	**(45,448)**	49,445
Non-controlling interest	**-**	8	**-**	43
Change in fair value of available for sale financial assets, net of tax attributable to Shareholders of the Company	**3**	-	**7**	-
Comprehensive (loss) income	**(30,022)**	(9,462)	**(94,631)**	65,401
Comprehensive (loss) income attributable to:				
Shareholders of the Company	**(30,022)**	(9,548)	**(94,631)**	65,114
Non-controlling interest	**-**	86	**-**	287
	(30,022)	(9,462)	**(94,631)**	65,401
Net (loss) income per share (note 7)				
Basic	**(0.11)**	0.01	**(0.22)**	0.07
Diluted	**(0.11)**	0.01	**(0.22)**	0.07

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Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Changes in Equity (unaudited)
(stated in thousands of Canadian dollars)

	Six Months Ended June 30,	
	2016	2015
COMMON SHARES		
Balance, beginning of period	**484,932**	459,053
Issued pursuant to the Offering, net of share issue costs and taxes	**89,026**	-
Issued pursuant to stock-based compensation (note 8)	**15,878**	13,126
Issued pursuant to stock dividend and stock settled director fee	**6**	15
Balance, end of period	**589,842**	472,194
CONTRIBUTED SURPLUS		
Balance, beginning of period	**29,430**	21,315
Reclassified pursuant to stock-based compensation (note 7)	**(15,563)**	(11,460)
Stock-based compensation expense (note 8)	**8,761**	11,674
Balance, end of period	**22,628**	21,529
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	**185,280**	65,538
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(45,448)**	49,488
Change in fair value of available-for-sale financial assets	**7**	-
Balance, end of period	**139,839**	115,026
DEFICIT		
Balance, beginning of period	**(167,994)**	(5,869)
Net (loss) income attributable to shareholders of the Company	**(49,190)**	15,669
Dividends declared (note 9)	**(6,828)**	(35,797)
Balance, end of period	**(224,012)**	(25,997)
NON-CONTROLLING INTEREST		
Balance, beginning of period	**-**	357
Net income attributable to non-controlling interest	**-**	244
Distributions declared to non-controlling interest	**-**	(509)
Balance, end of period	**-**	92
	528,297	582,844

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

Canadian Energy Services & Technology Corp.

Condensed Consolidated Statements of Cash Flows (unaudited)
(stated in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net (loss) income	**(25,597)**	1,836	**(49,190)**	15,913
Adjustments for:				
Depreciation and amortization	**14,466**	13,107	**29,840**	26,334
Stock-based compensation (note 8)	**2,395**	6,506	**8,761**	11,674
Other non-cash expenses	**101**	(142)	**4,842**	332
Deferred income tax (recovery) expense	**(1,315)**	495	**(1,736)**	2,500
Gain on disposal of assets	**(488)**	(121)	**(848)**	(308)
Other (income) loss	**(50)**	(5,816)	**181**	(5,816)
Change in non-cash working capital (note 12)	**34,762**	101,458	**70,139**	123,906
	24,274	117,323	**61,989**	174,535
FINANCING ACTIVITIES:				
Repayment of long-term debt and finance leases	**(2,791)**	(1,935)	**(5,010)**	(4,922)
Decrease in Amended Senior Facility	**-**	(37,032)	**(966)**	(60,015)
Shareholder dividends	**(1,670)**	(17,928)	**(10,161)**	(35,734)
Issuance of shares, net of issuance costs	**88,241**	1,349	**88,241**	1,666
Distributions to non-controlling interest	**-**	(263)	**-**	(509)
	83,780	(55,809)	**72,104**	(99,514)
INVESTING ACTIVITIES:				
Investment in property and equipment	**(8,328)**	(12,381)	**(17,087)**	(26,918)
Investment in intangible assets	**(367)**	(891)	**(697)**	(1,367)
Deferred acquisition consideration	**(2,462)**	-	**(4,152)**	-
Proceeds on disposal of property and equipment	**2,358**	1,485	**3,902**	2,991
	(8,799)	(11,787)	**(18,034)**	(25,294)
Effect of foreign exchange on cash	**(799)**	(453)	**(4,926)**	(453)
CHANGE IN CASH	**98,456**	49,274	**111,133**	49,274
Cash, beginning of period	**12,677**	-	**-**	-
Cash, end of period	**111,133**	49,274	**111,133**	49,274
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**11,094**	11,529	**11,610**	12,108
Income taxes paid	**671**	491	**667**	978

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

1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") is a company domiciled in Canada. These unaudited condensed consolidated financial statements of the Company as at and for the three and six months ended June 30, 2016 and 2015 comprise the Company and its subsidiaries (together referred to as the "Company" or "CES").

CES' core business is to design, implement, and manufacture technically advanced consumable fluids and specialty chemicals for the oil and gas industry. 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. CES' business units include: Canadian Energy Services, AES Drilling Fluids, AES Frac Fluids, PureChem Services, Sialco Materials Ltd, JACAM Chemicals, Catalyst Oilfield Services, Clear Environmental Solutions, and EQUAL Transport.

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.

2. Basis of Presentation

Statement of Compliance

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard ("IAS") 34, *"Interim Financial Reporting"*, following the same accounting principles and methods of computation as outlined in the Company's consolidated financial statements for the year ended December 31, 2015. There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2016. 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, 2015.

These unaudited condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2015. These unaudited condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on August 11, 2016.

3. Property and Equipment

Property and equipment are comprised of the following balances:

	As at June 30, 2016			As at December 31, 2015		
$000's	**Cost**	**Accumulated Depreciation**	**Carrying Value**	Cost	Accumulated Depreciation	Carrying Value
Buildings	**98,513**	**(11,936)**	**86,577**	96,851	(10,044)	86,807
Trucks and trailers	**55,396**	**(28,605)**	**26,791**	60,333	(26,430)	33,903
Processing equipment	**45,303**	**(8,101)**	**37,202**	45,546	(6,815)	38,731
Field equipment	**37,128**	**(18,771)**	**18,357**	36,358	(17,046)	19,312
Vehicles	**33,720**	**(14,116)**	**19,604**	38,538	(15,309)	23,229
Tanks	**31,107**	**(7,681)**	**23,426**	32,448	(6,857)	25,591
Aircraft	**25,339**	**(6,447)**	**18,892**	26,403	(5,619)	20,784
Leasehold improvements	**11,334**	**(4,292)**	**7,042**	10,402	(3,508)	6,894
Land	**9,223**	**-**	**9,223**	9,588	-	9,588
Computer equipment	**7,342**	**(5,095)**	**2,247**	7,841	(4,925)	2,916
Furniture and fixtures	**3,632**	**(2,085)**	**1,547**	3,611	(1,866)	1,745
	358,037	**(107,129)**	**250,908**	367,919	(98,419)	269,500

4. Other Assets

The Company holds investments within its Barbados-based captive insurance company for self-insured liabilities that are subject to insurance regulatory requirements and are categorized as available for sale. The investment portfolio is comprised of US dollar cash and cash equivalents and investment grade corporate and government securities as follows:

	As at	
$000's	**June 30, 2016**	December 31, 2015
Fixed income securities, with maturities due:		
Less than 1 year	**808**	1,030
1-5 years	**1,696**	348
Greater than 5 years	**617**	-
	3,121	1,378
Cash and cash equivalents	**1,224**	3,366
Equities	**530**	594
Other assets	**4,875**	5,338

Amounts denominated in foreign currencies have been translated at the respective period end exchange rates

Certain of these investments in the amount of $1,306 (December 31, 2015 - $1,399) have been pledged as collateral for letters of credit by the banker of the Company's captive insurance company in favor of the underwriting companies.

5. Long-Term Debt

On March 29, 2016, the Company completed an amendment to its existing Senior Facility ("Amended Senior Facility"). All of the amendments took effect March 29, 2016, and will remain in effect for the full term of the Amended Senior Facility to expiry on September 28, 2018. The principal amendments to the Amended Senior Facility include a voluntary reduction in the borrowing amount from $200,000 to $150,000 and certain changes to the Company's debt covenants as outlined below. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 1.50% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 2.50%. The Amended Senior Facility has a standby fee ranging from 0.35% to 0.56%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

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

- The Total Net Funded Debt to EBITDA covenant has been waived for the remainder of the term of the Amended Senior Facility (formerly 4.50:1.00);
- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.25 to 1.00 (formerly 2.50:1.00) calculated on a rolling four-quarter basis; and
- The quarterly ratio of EBITDA to interest expense, on a rolling four-quarter basis, must be more than (formerly 3.00:1.00):
  - 2.00:1.00 for the period ending March 31, 2016;
  - 1.75:1.00 for the period ending June 30, 2016;
  - 1.50:1.00 for the period ending September 30, 2016;
  - 1.50:1.00 for the period ending December 31, 2016;
  - 1.75:1.00 for the period ending June 30, 2017; and
  - 2.00:1.00 thereafter.

The relevant definitions of key ratio terms as set forth in the Amended 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. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. An additional amount of $3.0 million was permitted to be added to EBITDA on a one time basis for the quarter ended December 31, 2015.
- 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 characterized as operating leases, and accrued interest not

yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

- 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 Company's Amended Senior Facility covenant calculations.

As at June 30, 2016, the Company was in compliance with the terms and covenants of its lending agreements. The Company's Amended Senior Facility financial covenant calculations as at June 30, 2016 and December 31, 2015, as amended, are as follows:

	As at	
$000's	**June 30, 2016**	December 31, 2015
Senior Funded Debt to trailing EBITDA Ratio (Must be < 2.25:1.00)		
Senior Funded Debt	**(99,185)**	14,941
EBITDA for the four quarters ended	**50,507**	103,035
Ratio	**(1.964)**	0.145
EBITDA to Interest Expense (Must be > 1.75:1.00)		
EBITDA for the four quarters ended	**50,507**	103,035
Interest Expense for the four quarters ended	**22,851**	23,436
Ratio	**2.210**	4.396

As of June 30, 2016, the maximum available draw on the Amended Senior Facility was $113,641 (December 31, 2015 - $200,000), subject to maintaining the Senior Funded Debt to trailing EBITDA ratio as described above. The Company had a net draw of $nil (December 31, 2015 – $449), with capitalized transaction costs of $677 (December 31, 2015 – $517). Transaction costs attributable to the Amended Senior Facility are recorded as part of the Amended Senior Facility and amortized to finance costs over the remaining term.

The Company's long-term debt is comprised of the following balances:

	As at	
$000's	**June 30, 2016**	December 31, 2015
Amended Senior Facility	**-**	966
Senior Notes	**300,000**	300,000
	300,000	300,966
Less net unamortized debt issue costs	**(4,269)**	(4,588)
Add net unamortized debt premium	**2,828**	3,199
Long-term debt	**298,559**	299,577

For the three and six months ended June 30, 2016, the Company recorded $5,931 and $12,078, respectively, (2015 – $6,329 and $12,695, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of capitalized transaction costs.

Scheduled principal payments on the Company's long-term debt for the next five years at June 30, 2016, are as follows:

$000's	
2016 - 6 months	**-**
2017	**-**
2018	**-**
2019	**-**
2020	**300,000**
Total	**300,000**

6. Income Taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and Luxembourg based on the taxable income or loss including the transactions entered into and recorded by the Company and based on the estimates and calculations used by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. As at June 30, 2016 there are unrecognized deferred income tax assets of $21,231 (December 31, 2015 - $6,914) which have not been recognized due to the uncertainty over realization of the respective tax pools.

In 2014, the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which stated its intent to challenge the Canadian tax consequences of the Company's conversion from a publicly-traded Canadian limited partnership to a publicly-traded corporation (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). If the CRA issues notices of reassessment in respect of the Company's 2010, 2011, and 2012 taxation years, CES would be required to remit to the CRA 50% of the tax liability claimed by the CRA in order to appeal such reassessments. If such reassessments are issued and maintained on appeal, CES will be obligated to remit cash taxes of approximately $16,000 for the three taxation years, plus approximately $4,300 in interest to June 30, 2016. While the Company continues to believe its returns were correctly filed and it has not yet received any notices of reassessment relating to this matter, it has proposed a settlement offer to the CRA. A current tax expense of $7,000 has been accrued in the Company's June 30, 2016, condensed consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion.

7. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding

A summary of the changes to common share capital is presented below:

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
Common Shares *($000's except number of shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of period	**220,424,818**	**484,932**	215,512,074	459,053
Issued pursuant to the Offering, net of share issue costs and taxes	**30,670,500**	**89,026**	-	-
Consideration for business combinations	**-**	**-**	958,163	4,500
Issued pursuant to stock-based compensation	**2,770,858**	**315**	3,948,017	3,479
Contributed surplus related to stock-based compensation	**-**	**15,563**	-	17,864
Issued pursuant to stock dividend and stock settled director fee	**1,680**	**6**	6,564	36
Balance, end of period	**253,867,856**	**589,842**	220,424,818	484,932

c) Net (loss) income per share

In calculating the basic and diluted net (loss) income per share for the three and six months ended June 30, 2016 and 2015, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's, except share and per share amounts	**2016**	2015	**2016**	2015
Net (loss) income [1]	**(25,597)**	1,758	**(49,190)**	15,669
Weighted average number of shares outstanding:				
Basic shares outstanding	**230,573,931**	217,442,891	**225,751,133**	216,790,878
Effect of dilutive shares	**-**	6,295,343	**-**	5,715,772
Diluted shares outstanding	**230,573,931**	223,738,234	**225,751,133**	222,506,650
Net (loss) income per share - basic	**($0.11)**	$0.01	**($0.22)**	$0.07
Net (loss) income per share - diluted	**($0.11)**	$0.01	**($0.22)**	$0.07

[1] Represents net (loss) income attributable to shareholders of the Company.

Excluded from the calculation of dilutive shares for the three and six months ended June 30, 2016, are 11,333,744 of Share Rights and 2,610,162 of Restricted Share Units (2015 – 9,238,000 of Share Rights) that are considered anti-dilutive.

8. Stock-Based Compensation

As at June 30, 2016, a total of 25,386,786 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 11,442,843 common shares remained available for grant. For the three and six months ended June 30, 2016, stock compensation expense of $2,395 and $8,761, respectively, (2015 – $6,506 and $11,674, respectively) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

a) Share Rights Incentive Plan ("SRIP")

CES' SRIP provides incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the date of the grant. Under the SRIP, employees may elect to exercise the Share Rights at an adjusted exercise price in which the option exercise price will be adjusted downwards by the cumulative dividends paid by the Company.

A summary of changes under the SRIP is presented below:

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of period	**11,248,244**	**$7.07**	6,344,044	$6.22
Granted during the period	**1,080,000**	**3.11**	6,650,000	6.87
Exercised during the period	**(133,500)**	**2.36**	(1,490,800)	2.33
Expired during the period	**(27,000)**	**3.44**	-	-
Forfeited during the period	**(834,000)**	**7.59**	(255,000)	7.23
Balance, end of period	**11,333,744**	**$6.71**	11,248,244	$7.07
Exercisable Share Rights, end of period	**5,031,077**	**$6.88**	2,913,244	$6.27

(stated in thousands of Canadian dollars, except for share and per share amounts)

The compensation costs for Share Rights granted during the three and six months ended June 30, 2016, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Six Months Ended June 30, 2016
Risk-free interest rate	**0.58%**
Expected average life of Share Rights	**2.6 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**0.80%**
Dividend yield	**0.27%**
Expected volatility	**56.42%**
Weighted average share price	**$3.10**
Weighted average fair value per Share Right	**$1.07**

The following table summarizes information about the outstanding grants under the Company's SRIP as at June 30, 2016:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$3.10 - $4.74	2,210,244	3.38	2.98	1,130,244	3.63
$4.75 - $6.77	562,500	6.09	3.71	114,500	6.08
$6.78 - $7.09	5,317,000	6.92	3.89	1,830,333	6.92
$7.10 - $7.48	1,669,000	7.26	2.65	990,000	7.25
$7.45 - $10.98	1,575,000	10.29	2.88	966,000	10.31
	11,333,744	$6.71	3.38	5,031,077	$6.88

b) Restricted Share Unit ("RSU") Plan

CES' RSU Plan provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSUs. The RSUs generally vest from one year, and up to three years, on the anniversary from the date of grant, subject to other such vesting schedules or conditions as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested.

A summary of changes under the RSU plan is presented below:

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of period	**4,892,227**	**$6.32**	4,093,785	$7.03
Granted during the period	**514,440**	**3.32**	3,103,652	5.80
Reinvested during the period	**60,953**	**6.33**	270,342	6.53
Vested during the period	**(2,637,358)**	**5.84**	(2,457,217)	6.85
Forfeited during the period	**(220,100)**	**7.47**	(118,335)	6.89
Balance, end of period	**2,610,162**	**$6.12**	4,892,227	$6.32

The weighted average fair value of RSUs granted during the six months ended June 30, 2016, was $3.32 per RSU (2015 - $5.80). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the six months ended June 30, 2016, was reduced by an estimated weighted average forfeiture rate of 2.42% per year at the date of grant.

9. Dividends
The Company declared dividends to holders of common shares for the six months ended June 30, 2016, as follows:

$000's except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 29	Feb 12	$0.0180	**3,971**
February	Feb 29	Mar 15	$0.0025	**552**
March	Mar 31	Apr 15	$0.0025	**556**
April	Apr 29	May 13	$0.0025	**556**
May	May 31	Jun 15	$0.0025	**558**
June	Jun 30	Jul 15	$0.0025	**635**
Total dividends declared during the period			$0.0305	**6,828**

Subsequent to June 30, 2016, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on August 15, 2016, for shareholders of record on July 29, 2016.

10. Commitments
The Company has commitments with payments due as follows:

$000's	2016 - 6 months	2017	2018	2019	2020	Total
Office and facility rent	3,529	5,656	4,895	3,235	1,789	**19,104**

Payments denominated in foreign currencies have been translated using the appropriate June 30, 2016 exchange rate

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

11. Financial Instrument and Risk Management
The classification of financial instruments remains consistent at June 30, 2016 with that as at December 31, 2015. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value. The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on June 30, 2016. The estimated fair value of the Senior Notes at June 30, 2016 is $294,349 (December 31, 2015 - $279,410) and is based on level 2 inputs as the inputs are observable through correlation with market data.

CES classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following table aggregates the Company's financial derivatives and investments available for sale in accordance with the above hierarchy:

$000's	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at June 30, 2016					
Financial derivative asset	11	11	-	11	-
Financial derivative liability	(1,836)	(1,836)	-	(1,836)	-
Other assets	4,875	4,875	4,875	-	-
Total	3,050	3,050	4,875	(1,825)	-
As at December 31, 2015					
Financial derivative asset	2,453	2,453	-	2,453	-
Financial derivative liability	(93)	(93)	-	(93)	-
Other assets	5,338	5,338	5,338	-	-
Total	7,698	7,698	5,338	2,360	-

12. Supplemental Information

The changes in non-cash working capital were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Decrease (increase) in current assets				
Accounts receivable	**30,009**	113,233	**65,003**	140,841
Inventory	**8,083**	7,637	**9,974**	13,254
Prepaid expenses and deposits	**647**	2,910	**7,901**	18,811
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**(4,056)**	(22,136)	**(13,240)**	(50,114)
	34,683	101,644	**69,638**	122,792
Relating to:				
Operating activities	**34,762**	101,458	**70,139**	123,906
Investing activities	**(79)**	186	**(501)**	(1,114)

For the three and six months ended June 30, 2016 and 2015, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

13. Geographical Information
Geographical information relating to the Company's activities is as follows:

	Revenue		Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Canada	**29,478**	35,355	**76,782**	112,432
United States	**68,255**	127,782	**158,100**	284,467
Total	**97,733**	163,137	**234,882**	396,899

	Long-Term Assets [1]	
$000's	**June 30, 2016**	December 31, 2015
Canada	**163,372**	166,361
United States	**396,372**	437,504
Total	**559,744**	603,865

[1] *Includes: Property and equipment, intangible assets, other assets and goodwill*

14. Subsequent Event
Catalyst Acquisition
On August 1, 2016, through a US subsidiary, CES completed the acquisition of all of the production and specialty chemical business assets of Catalyst Oilfield Services, LLC. ("Catalyst"). Catalyst is a West Texas based private company that provides production and specialty chemical solutions for a number of leading oil and natural gas companies. The acquisition of Catalyst will accelerate the expansion of the Company's US production and specialty chemicals operations with particular focus in West Texas and the Permian Basin.

The effective date of the Catalyst acquisition was August 1, 2016. The Company has not made the required disclosures under IFRS due to the initial accounting for the acquisition being incomplete at the time of issuance. The Company will report a preliminary purchase price allocation in the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2016.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

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