

## 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 months ended March 31, 2017, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2016 and 2015, and CES' 2016 Annual Information Form. This MD&A is dated May 11, 2017, 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 are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information contained in this document speaks only as of the date of the document, and CES assumes no obligation to publicly update or revise such information to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.

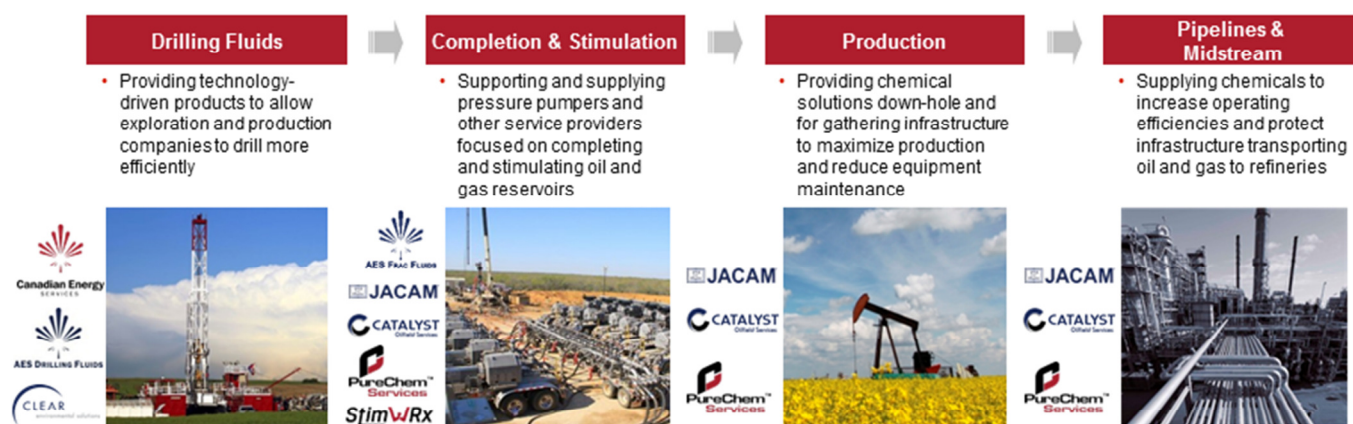
In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business; the anticipated reduction in exposure to the effects of spring break-up in the WCSB; the duration of spring break-up; the certainty and predictability of future cash flows and earnings; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC; future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2017, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and PureChem facilities; 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 (as defined herein); the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES' financial statements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies and the results of any U.S. trade credit insurance claims; management's opinion of the impact of self-insuring trade credit insurance; 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 and Catalyst will increase market share of production and specialty chemicals in the Permian Basin; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and specialty chemical sales and expected growth in the consumable chemicals market; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime; expectations regarding expansion of services in Canada and the U.S.; development of new technologies; expectations regarding CES' growth opportunities in Canada and the U.S.; the effect of acquisitions on the Company including the effect of the Catalyst and StimWrx Acquisitions (as defined herein); expectations regarding the performance or expansion of CES' operations; expectations regarding the diversification of operations away from the drill-bit; expectations that competitor consolidation and business failures will provide future opportunities to CES; expectations regarding demand for CES' services and technology; the potential for CES to expand its business as it relates to water usage and handling; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; 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 U.S., and internationally; geopolitical risk; fluctuations in demand for consumable fluids and chemical oilfield services, and any downturn in oilfield activity; a decline in activity in the WCSB, the Permian and other basins in which the Company operates; a decline in frac related chemical sales; a decline in operator usage of chemicals on wells; an increase in the number of customer well shut-ins; 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 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 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 oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; reassessment and audit risk associated with the Conversion and other tax filing matters; changes and proposed changes to U.S. policies including the potential for tax reform, possible renegotiation of international trade agreements including NAFTA, and potential Border Adjustment Tax; divergence in climate change policies between Canada and the U.S.; potential changes to the crude by rail industry; 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, 2016 and "Risks and Uncertainties" in this MD&A.

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

## BUSINESS OF 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 fracturing solutions or other forms of remedial 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.



**Oilfield Knowledge + Vertically Integrated Technology + Manufacturing = Competitive Advantage**



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"), StimWrx Energy Services Ltd. ("StimWrx"), Sialco Materials Ltd. ("Sialco"), Clear Environmental Solutions ("Clear"), and EQUAL Transport ("EQUAL"). In the US, CES operates under the trade names AES Drilling Fluids ("AES"), AES Frac Fluids ("AES Frac"), Superior Weighting Products ("Superior Weighting"), JACAM Chemicals ("JACAM"), and Catalyst Oilfield Services ("Catalyst").

The Canadian Energy Services and AES brands are focused on the design and implementation of drilling fluids systems and completion solutions sold directly to oil and gas producers. The StimWrx brand provides near matrix stimulation and remediation of oil, gas, and injection wells in Western Canada. The Superior Weighting brand custom grinds minerals including barite, which is the weighting agent utilized in most drilling fluid systems. The JACAM, Catalyst, PureChem, and Sialco brands are vertically integrated manufacturers of advanced specialty chemicals. In addition to being basic in the manufacture of oilfield chemicals, JACAM, Catalyst, and PureChem have expanding distribution channels into the oilfield.

Two complementary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting, water management services, and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. EQUAL is CES' transport division, providing its customers

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work in the WCSB. EQUAL primarily supports the oilfield chemical business by hauling, handling, managing, and warehousing products.

Led by JACAM's state of the art laboratory in Sterling, Kansas, CES now operates eight separate lab facilities across North America: two in Houston, Texas; two in Midland, Texas; and one in each of Carlyle, Saskatchewan; Delta, British Columbia; and Calgary, Alberta. In 2015, CES significantly expanded its laboratory capabilities in Calgary with the opening of its new laboratory and technology center. In the US, CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas with additional low-temperature reacting and chemical blending capabilities in Midland, Texas and chemical blending capabilities in Sonora, Texas. In Canada, CES has a chemical manufacturing and reacting facility located in Delta, British Columbia with additional chemical blending capabilities 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. CES' current dividend level preserves the strength of the Company's balance sheet while providing liquidity to fund potential growth initiatives. CES will continue to be protective of its balance sheet and prudent with its cash dividend.

## 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. The non-GAAP measures are further defined for use throughout this MD&A as follows:

**EBITDAC** – is defined as net income (loss) 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:

	Three Months Ended March 31,	
\$000s	2017	2016
Net income (loss)	7,778	(23,593)
Add back (deduct):		
Depreciation on property and equipment in cost of sales	9,123	9,007
Depreciation on property and equipment in G&A	1,339	1,244
Amortization on intangible assets in G&A	5,937	5,123
Interest expense, net of interest income	6,040	5,809
Amortization of capitalized deferred financing costs	321	315
Current income tax expense (recovery)	2,561	(1,546)
Deferred income tax recovery	(2,735)	(421)
Stock-based compensation	5,870	6,366
Unrealized foreign exchange (gain) loss	(42)	1
Unrealized derivative (gain) loss	(620)	4,425
Loss (gain) on disposal of assets	370	(360)
Other finance costs	169	-
Other (income) loss	(4)	231
EBITDAC	36,107	6,601

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

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**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 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.

**Treatment Points** – represents the average estimated number of unique wells or oilfield sites serviced monthly by CES in the referenced period with production and specialty chemicals.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

### FINANCIAL HIGHLIGHTS

Summary Financial Results (\$000s, except per share amounts)	Three Months Ended March 31,		
	2017	2016	% Change
Revenue	252,352	137,149	84%
Gross margin	59,785	23,910	150%
as a percentage of revenue	24%	17%	
Cash Gross Margin <sup>(1)</sup>	69,278	32,557	113%
as a percentage of revenue	27%	24%	
Income (loss) before taxes	7,604	(25,560)	nmf
per share – basic	0.03	(0.12)	nmf
per share - diluted	0.03	(0.12)	nmf
Net income (loss)	7,778	(23,593)	nmf
per share – basic	0.03	(0.11)	nmf
per share - diluted	0.03	(0.11)	nmf
EBITDAC <sup>(1)</sup>	36,107	6,601	447%
per share – basic	0.14	0.03	367%
per share - diluted	0.13	0.03	333%
Funds Flow From Operations <sup>(1)</sup>	27,523	2,338	1077%
per share – basic	0.10	0.01	900%
per share - diluted	0.10	0.01	900%
Dividends declared	1,983	5,079	(61%)
per share	0.0075	0.0230	(67%)

**Notes:**

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

### OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three months ended March 31, 2017 (“Q1 2017”), in comparison to the three months ended March 31, 2016 (“Q1 2016”), for CES are as follows:

- The financial results reported herein for Q1 2017 are reflective of the improvement in commodity prices that has led to a rebound in activity in the oil and gas industry. In contrast, Q1 2016 presented challenging market conditions for the industry with oil prices at historical lows and reduced activity levels. Although trough pricing levels continue to exist, the increase in activity has allowed CES to sell higher volumes of its products across its rationalized cost structure, and as a result, the financial results of CES in Q1 2017 are consistently improved in comparison to the results achieved in Q1 2016.
- CES generated revenue of \$252.4 million during Q1 2017, compared to \$137.1 million for Q1 2016, an increase of \$115.3 million or 84%. EBITDAC for Q1 2017 was \$36.1 million as compared to \$6.6 million for Q1 2016, representing an increase of \$29.5 million or 447%. Year-over-year, the Company's operating results benefited from increased activity due to the improved commodity price environment. Furthermore, Q1 2017 includes results attributable to the Permian based Catalyst Acquisition, completed in the third quarter of 2016, for which there were no associated results included in Q1 2016. As detailed below, in Q1 2017 all facets of the business in Canada and the US have made positive contributions to revenue and EBITDAC.
- Revenue generated in the US for Q1 2017 was \$141.7 million compared to \$89.8 million for Q1 2016, an increase of \$51.8 million or 58%. This year over year increase is as a result of the improved market conditions in Q1 2017 with significant activity improvement in the drilling fluids business, market share gains in drilling fluids and increased US Treatment Points particularly in the Permian Basin, as a result of the Catalyst Acquisition, for which there were no associated revenues or

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

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Treatment Points in the comparable period in 2016. In the drilling fluids business, the Company continued to grow market share in the US with 11% US Market Share in Q1 2017 compared to 10% in Q1 2016.

- Revenue generated in Canada for Q1 2017 was \$110.7 million compared to \$47.3 million for Q1 2016, an increase of \$63.4 million or 134%. Throughout the quarter, PureChem continued to gain market share in Canada in production chemicals as Canadian Treatment Points have increased 56% from the comparative period. During Q1 2017, the drilling fluids business increased its operating days by 102% over Q1 2016, which outpaced the increase in industry rig counts which increased by 65% over Q1 2016. Furthermore, the Company benefited from a full winter drilling season this year, as compared to the early Spring break-up experienced in Q1 2016 when customers curtailed spending and prematurely stopped drilling in order to preserve capital.
- In Q1 2017, CES recorded Cash Gross Margin of \$69.3 million or 27% of revenue, compared to Cash Gross Margin of \$32.6 million or 24% of revenue generated in the same period last year. Although activity levels have improved from 2016, the Company continues to sell its products and services at trough pricing levels. CES has yet to realize any meaningful price increases. The improvement in Cash Gross Margin as a percentage of revenue in Q1 2017 is evidence of the operating leverage in our consumable chemicals business model, and is as a result of the positive effects of the cost reduction initiatives taken in 2016, combined with increased activity levels as CES has come off its fixed cost base. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.
- CES recorded net income of \$7.8 million in Q1 2017 as compared to a net loss of \$23.6 million in the prior year. CES recorded net income per share of \$0.03 (\$0.03 diluted) for the three months ended March 31, 2017 versus a net loss per share of (\$0.11) ((\$0.11) diluted) in Q1 2016. The respective year-over-year increase in net income resulted from the factors discussed above offset by higher depreciation and amortization charges.
- At March 31, 2017, CES had a net draw of \$43.7 on its Senior Facility (December 31, 2016 – net draw of nil). The maximum available draw on the Senior Facility at March 31, 2017, was \$150.0 million (December 31, 2016 - \$121.4 million). In response to increased activity levels requiring CES to build working capital, as at the date of this MD&A, the Company had a net draw of approximately \$50.0 million on its Senior Facility. At March 31, 2017, CES is in compliance with the terms and covenants of its Senior Facility.
- At March 31, 2017, the Company had \$300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2016 - \$300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The Company has the option to redeem all of its outstanding Senior Notes on or after April 17, 2017. At March 31, 2017, CES is in compliance with the terms and covenants of its Senior Notes
- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of \$267.7 million as at March 31, 2017 (December 31, 2016 – \$222.3 million).
- During Q1 2017, CES declared monthly dividends totalling \$0.0075 per share as compared to \$0.023 per share for the same period in 2016. During Q1 2017, the Company's Payout Ratio averaged 8% as compared to 260% in Q1 2016. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.
- On April 13, 2017, the Company experienced a fire at its organoclay plant located at the JACAM manufacturing facility in Sterling, Kansas. The plant was built in 2014, and produces organoclay used in the Company's oil-based or invert drilling fluids. Organoclay is an organically modified phyllosilicate, derived from naturally occurring clay mineral and is used as a viscosifier for oil-based drilling fluids. The fire has rendered the organoclay plant inoperable; however, the damage was limited to this single building. In addition, there are no known environmental impacts from the event and most importantly no injuries were reported. The Company's production and specialty chemical manufacturing plant and associated warehouses were physically unaffected by this incident and operational delays to the JACAM facility were limited to a two day period with minimal impact. While the Company currently has significant organoclay inventory on hand, third-party suppliers will be utilized until the plant is rebuilt. To date, there have been no interruptions to the supply of products to our drilling fluids divisions and ultimately, our customers, and none are expected at this time. The Company is fully insured for this loss, including coverage for any extra expenses incurred on the sourcing of organoclay from third party suppliers. As such it is expected that the financial statement impact will be minimal and at this time it is estimated to be US\$0.3 million, primarily relating to the insurance deductibles associated with the Company's insurance coverage.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

### RESULTS FOR THE PERIODS

(\$000s, except per share amounts)	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
Revenue	252,352	137,149	115,203	84%
Cost of sales	192,567	113,239	79,328	70%
Gross margin	59,785	23,910	35,875	150%
Gross margin percentage of revenue	24%	17%		
General and administrative expenses	45,440	39,016	6,424	16%
Finance costs	6,745	10,223	(3,478)	(34%)
Other (income) loss	(4)	231	(235)	(102%)
Income (loss) income before taxes	7,604	(25,560)	33,164	nmf
Current income tax expense (recovery)	2,561	(1,546)	4,107	nmf
Deferred income tax recovery	(2,735)	(421)	(2,314)	550%
Net income (loss)	7,778	(23,593)	31,371	nmf
Net income (loss) per share – basic	0.03	(0.11)	0.14	nmf
Net income (loss) per share – diluted	0.03	(0.11)	0.14	nmf
EBITDAC <sup>(1)</sup>	36,107	6,601	29,506	447%

Common Shares Outstanding	2017	2016	% Change
End of period	264,825,562	222,369,084	19%
Weighted average			
- basic	264,169,358	220,928,336	20%
- diluted	272,554,790	220,928,336	23%

Financial Position (\$000s)	As at		% Change
	March 31, 2017	December 31, 2016	
Net working capital	267,687	222,323	20%
Total assets	1,074,012	978,959	10%
Long-term financial liabilities <sup>(2)</sup>	352,494	306,267	15%
Shareholders' equity	588,364	568,837	3%

#### Notes:

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

<sup>2</sup> Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and vehicle and equipment finance leases.

#### Revenue and Operating Activities

CES generated revenue of \$252.4 million during Q1 2017, compared to \$137.1 million for Q1 2016, an increase of \$115.2 million or 84%. Geographical revenue information relating to the Company's activities is as follows:

\$000s	Revenue	
	Three Months Ended March 31,	
	2017	2016
Canada	110,659	47,304
United States	141,693	89,845
	252,352	137,149

Revenue generated in the US for Q1 2017 was \$141.7 million compared to \$89.8 million for Q1 2016, an increase of \$51.8 million or 58%. This year over year increase is as a result of the improved market conditions in Q1 2017 with significant activity growth in the drilling fluids business, market share gains in drilling fluids and increased US Treatment Points particularly in the



## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

Permian Basin, as a result of the Catalyst Acquisition, for which there were no associated revenues or Treatment Points in the comparable period in 2016. As noted below, US Operating Days increased by 59% quarter over quarter, while US Treatment Points increased by 64%. Furthermore, the Company continued to gain market share in Q1 2017 as CES achieved US Market Share of 11% for the three month period ended March 31, 2017, up from 10% in the comparable 2016 period.

Revenue generated in Canada for Q1 2017, was \$110.7 million compared to \$47.3 million for Q1 2016, an increase of \$63.4 million or 134%. Throughout the quarter, PureChem continued to gain market share in Canada in production chemicals as Canadian Treatment Points have increased 56% from the comparative period. During Q1 2017, the drilling fluids business increased its operating days by 102% over the comparable period Q1 2016 while industry rig activity levels at the drill-bit in Canada increased 65% from Q1 2016. The Company achieved Canadian Market Share of 38% for the three months ended March 31, 2017, respectively, as compared with 32% for the three months ended March 31, 2016. CES expects to maintain its leading market share but 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 months ended March 31, 2017, is \$4.1 million (2016 – \$1.2 million) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business is levered to drilling activity and has been positively impacted by the industry rig activity levels at the drill-bit in Canada. Further contributing to the increase was the addition of new technology and service offerings around waste water management that were delivered at lower than historical margins for the business, resulting in increased revenue from the comparable periods. 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.

A summary of rig counts and Operating Days for the three months ended March 31, 2017, is as follows:

	Three Months Ended March 31,		
	2017	2016	% Change
Canada	9,007	4,469	102%
US	7,461	4,697	59%
Total Operating Days <sup>(1)</sup>	16,468	9,166	80%

**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 March 31,		
	2017	2016	% Change
Canadian industry rig count <sup>(1)</sup>	252	153	65%
US industry rig count <sup>(2)</sup>	719	526	37%

**Notes:**

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

The following table summarizes estimated Treatment Points during the three months ended March 31, 2017 as compared to the same period in 2016:

	Three Months Ended March 31,		
	2017	2016	% Change
Canada	6,642	4,264	56%
US	24,977	15,206	64%
Total Treatment Points <sup>(1)</sup>	31,619	19,470	62%

**Notes:**

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

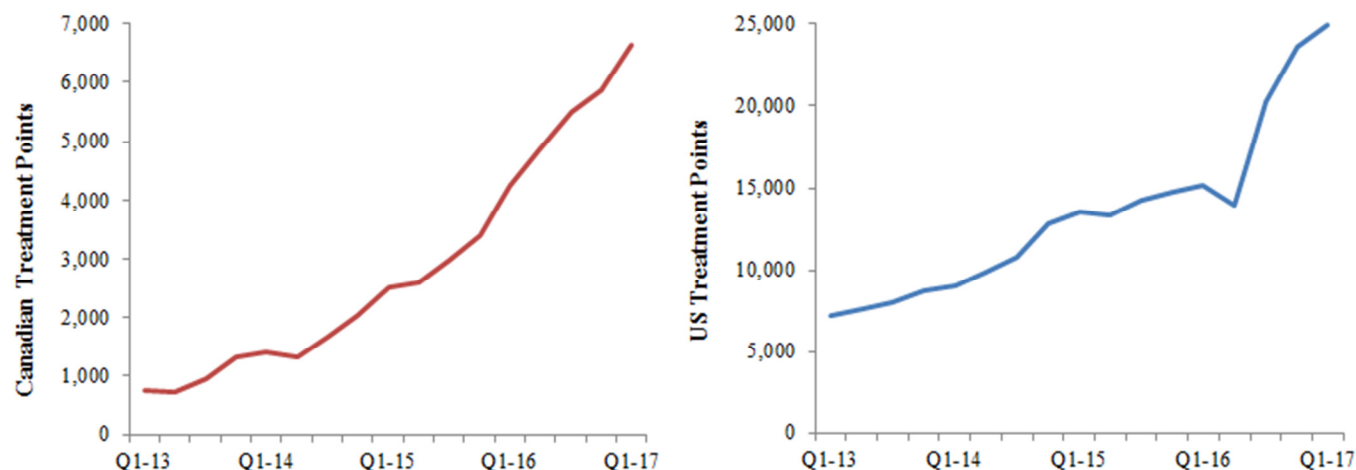


## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

As evidenced by the graphs below, US Treatment Points have continued to trend upwards since the JACAM Acquisition in March of 2013 and have increased considerably subsequent to the August 1, 2016, Catalyst Acquisition. Canadian Treatment Points have continued to trend upwards as the Company continues to gain market share.



For the three months ended March 31, 2017, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended March 31,	
	2017	2016
Top five customers as a % of total revenue	27%	21%
Top customer as a % of total revenue	12%	9%

### Cost of Sales and Gross Margin

Gross margin represents the operating 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, environmental, trucking, 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 manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

In Q1 2017, CES recorded gross margin of \$59.8 million or 24% of revenue, compared to gross margin of \$23.9 million or 17% of revenue generated in the same period last year. In Q1 2017, CES recorded Cash Gross Margin of \$69.3 million or 27% of revenue, compared to Cash Gross Margin of \$32.6 million or 24% of revenue generated in the same period last year.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

Cash Gross Margin is calculated as follows:

\$000s	Three Months Ended March 31,	
	2017	2016
Gross margin	<b>59,785</b>	23,910
as a percentage of revenue	<b>24%</b>	17%
Add back (deduct):		
Depreciation included in cost of sales	<b>9,123</b>	9,007
Loss (gain) on disposal of assets included in cost of sales	<b>370</b>	(360)
Cash Gross Margin <sup>(1)</sup>	<b>69,278</b>	32,557
as a percentage of revenue	<b>27%</b>	24%

**Notes:**

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

The improvement in Cash Gross Margin as a percentage of revenue in Q1 2017 is a result of the positive effects of cost reduction initiatives taken early in 2016 combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. Although activity levels have largely improved throughout the industry, pricing pressure from customers persists and the Company continues to sell its products and services at tough pricing levels. With the exception of the pass-through of certain costs like increased labour and commodity price costs, CES has yet to benefit from any broad based price increases to its customers.

### 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 general and administrative expenses under IFRS. Cash General and Administrative Costs is a more meaningful measure of the general and administrative expenses affecting CES' free cash flow.

\$000s	Three Months Ended March 31,	
	2017	2016
General and administrative expenses	<b>45,440</b>	39,016
as a percentage of revenue	<b>18%</b>	28%
Deduct non-cash expenses included in general & administrative expenses:		
Stock-based compensation	<b>5,870</b>	6,366
Depreciation & amortization	<b>7,276</b>	6,367
Cash General and Administrative Costs <sup>(1)</sup>	<b>32,294</b>	26,283
as a percentage of revenue	<b>13%</b>	19%

**Notes:**

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

In Q1 2017, CES recorded Cash General and Administrative Costs of \$32.3 million or 13% of revenue, compared to Cash General and Administrative Costs of \$26.3 million or 19% of revenue generated in the same period last year. Cash General and Administrative Costs as a percentage of revenue have decreased due to an increase in revenues, resulting in these fixed costs of managing the business being distributed over a larger revenue base. In 2016, the Company took actions to rationalize Cash General and Administrative Costs. These cost reduction measures included reduced corporate and administrative headcounts, reduced compensation levels, and reductions in discretionary spending. As the industry rebounds it is expected that Cash General and Administrative Costs will rise as we add headcount and experience cost inflation. In addition, it should be noted that Cash General and Administrative Costs were negatively impacted by the following items in Q1 2017: \$0.5 million in additional bad debt allowances and \$0.9 million in other restructuring and legal costs. Finally, for the three months ended March

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

31, 2017, US source Cash General and Administrative Costs were positively impacted on translation by weakness in USD versus CAD over the comparable period in 2016.

### **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:

\$000s	Three Months Ended March 31,	
	2017	2016
Depreciation recorded in cost of sales:		
Depreciation expense on property and equipment	9,123	9,007
Depreciation and amortization recorded in G&A:		
Amortization expense on intangible assets	5,937	5,123
Depreciation expense on property and equipment	1,339	1,244
	7,276	6,367
Total depreciation and amortization expense	16,399	15,374

Depreciation of property and equipment and amortization of intangible assets totalled \$16.4 million for Q1 2017, as compared to \$15.4 million for the same period in 2016. 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 US, as well as the amortization of the Company's property and equipment and intangible assets associated with the acquisition of Catalyst, for which there was none in the comparable period in 2016.

### **Finance Costs**

For the three months ended March 31, 2017 and 2016, finance costs were comprised of the following:

\$000s	Three Months Ended March 31,	
	2017	2016
Realized foreign exchange (gain) loss	(80)	1,311
Unrealized foreign exchange (gain) loss	(42)	1
Realized financial derivative loss (gain)	957	(1,638)
Unrealized financial derivative (gain) loss	(620)	4,425
Amortization of debt issue costs and premium	321	315
Interest on debt, net of interest income	6,040	5,809
Other finance costs	169	-
Finance costs	6,745	10,223

### **Interest expense**

During the three months ended March 31, 2017, interest expense included in finance costs consists of interest expense on 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.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

<i>\$000s</i>	Three Months Ended March 31,	
	2017	2016
Total interest expense, net of interest income	6,361	6,124
Deduct non-cash interest expense:		
Amortization of debt issue costs and premium	321	315
Cash Interest Expense <sup>(1)</sup>	6,040	5,809

### Notes:

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

Year-over-year, interest expense has increased largely as a result of the increased net draw on the Senior Facility throughout Q1 2017 as compared to Q1 2016, thereby increasing interest incurred on outstanding borrowing. Total interest expense relating to the Company's Senior Notes during the three months ended March 31, 2017 is \$5.4 million, consistent with \$5.5 million in Q1 2016.

### Foreign exchange gains and losses

Finance costs for the three months ended March 31, 2017 include a net realized and unrealized foreign exchange gain of \$0.1 million (2016 – a loss of \$1.3 million), primarily related to foreign exchange gains on the Company's USD denominated receivables and cash balances held in Canada. The net foreign exchange gain was driven by a strengthening CAD in the first quarter of 2017.

### Derivative gains and losses

Finance costs for Q1 2017 include a net realized and unrealized derivative loss of \$0.3 million relating to the Company's foreign currency derivative contracts as compared with a net derivative loss of \$2.8 million in Q1 2016. As of March 31, 2017, the Company had a financial derivative asset of net \$0.05 million relating to its outstanding derivative contracts (December 31, 2016 – net asset of \$0.02 million and 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 March 31, 2017, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD\$000s	Contract Type	Settlement	Average USDCAD Exchange Rate
April 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3277
May 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3275
June 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3273
July 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3271
August 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3249
September 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3243
October 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3238
November 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3232
December 2017	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3224
January 2018	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3217
February 2018	US\$3,000	Deliverable Forward	Physical Purchase	\$1.3209
March 2018	US\$2,000	Deliverable Forward	Physical Purchase	\$1.3223
Total	US\$35,000			\$1.3245

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

#### *Current and Deferred Income Taxes*

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three months ended March 31, 2017 and 2016, income tax expense was comprised of the following:

\$000's	Three Months Ended March 31,	
	2017	2016
Current income tax expense (recovery)	2,561	(1,546)
Deferred income tax recovery	(2,735)	(421)
Total income tax expense recovery	(174)	(1,967)

The Company 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 "Conversion"). 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 and capital losses of approximately \$18.7 million. 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 \$7.0 million was accrued for in the Company's December 31, 2016 consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion. As at March 31, 2017, this amount remains as a current tax payable in the consolidated financial statements. See also "Risks and Uncertainties – Income Tax Matters".

The year-over-year increase in current income tax expense is primarily related to an increase in operating income in 2017. The year-over-year increase 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, including the unrecognized deferred tax asset related to current year US tax losses in 2017.

#### *Net Working Capital*

At March 31, 2017, the Company had a net draw of \$43.7 on its Senior Facility. CES continued to maintain a strong statement of financial position or "balance sheet" as at March 31, 2017, with positive net working capital of \$267.7 million (December 31, 2015 - \$222.3 million). The increase in working capital from December 31, 2016 is primarily due to increased activity levels across all facets of the business and is comprised of the following: a \$65.2 million increase in receivables and a \$24.6 million increase in inventory, offset by a \$13.4 million reduction in cash, a \$2.5 million reduction in prepaid expenses, a \$22.5 million increase in accounts payable, a \$4.3 million increase in deferred acquisition consideration, and a \$1.7 million increase in income taxes payable.

#### *Total Long-Term Assets*

Total long-term assets of CES increased by \$21.6 million to \$681.1 million at March 31, 2017 from \$659.5 million at December 31, 2016. The increase is attributable to the long-term assets acquired through the StimWrx Acquisition, which includes \$9.6 million in intangible assets and \$18.1 million of goodwill based on the Company's preliminary purchase price allocation. This increase in long-term assets is partially offset with a decline in USD denominated long-term assets on translation as a result of the CAD strength that has occurred since December 31, 2016.

#### *Long-Term Financial Liabilities*

CES had long-term debt totalling \$343.1 million at March 31, 2017, compared to \$298.8 million at December 31, 2016, an increase of \$44.3 million. The increase in long-term debt is primarily as a result of the Company's increased borrowings on the Senior Facility during the period, due to the increased activity and need to build up working capital to meet growing customer demands. 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 Months Ended March 31, 2017

At March 31, 2017, long-term debt liabilities were comprised of the following balances:

<i>\$000s</i>	As at	
	March 31, 2017	December 31, 2016
Senior Facility	44,160	-
Senior Notes	300,000	300,000
	344,160	300,000
Less net unamortized debt issue costs	(3,366)	(3,683)
Add net unamortized debt premium	2,269	2,453
Long-term debt	343,063	298,770

At March 31, 2017, the Company had finance lease liabilities of \$16.3 million, net of the current portion of \$7.4 million, representing a total increase of \$1.6 million from December 31, 2016. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

<i>\$000s</i>	
Less than 1 year	8,045
1-5 years	9,340
5+ years	-
Total lease payments	17,385
Amount representing implicit interest	(1,045)
Finance lease obligations	16,340
Less: current portion of finance lease obligations	(7,429)
Long-term finance lease obligations	8,911

During the three months ended March 31, 2017, the Company made long-term scheduled debt and lease repayments totaling \$2.1 million on its finance leases.

### Shareholders' Equity

Shareholders' equity increased by \$19.5 million from \$568.8 million at December 31, 2016 to \$588.4 million at March 31, 2017. The increase in shareholders' equity is primarily attributable to the issuance of \$12.8 million in shares issued as consideration in conjunction with the StimWrx Acquisition, net of share issuance costs, \$7.8 million net income for the period, \$5.9 million in contributed surplus related to stock-based compensation expense, and \$3.7 million relating to the issuance of equity under the Company's stock-based compensation plans. The increase was offset by a \$2.0 million of dividends declared by the Company during the period, \$2.8 million reclassified from contributed surplus for stock-based compensation plans, and a \$5.8 million loss in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries.

### Related Parties

During the three months ended March 31, 2017, CES sold property and equipment with an aggregate net book value of \$1.1 million to an employee and a director of the Company, and to companies controlled by the respective employee and director, for proceeds of \$0.6 million. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties.

# Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

## QUARTERLY FINANCIAL SUMMARY

(\$000s, except per share amounts)	Three Months Ended			
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Revenue	252,352	187,704	145,140	97,733
Gross margin	59,785	39,983	32,134	15,754
Net income (loss )	7,778	(3,973)	(11,387)	(25,597)
<i>per share– basic</i>	0.03	(0.02)	(0.04)	(0.11)
<i>per share– diluted</i>	0.03	(0.02)	(0.04)	(0.11)
EBITDAC <sup>(1)</sup>	36,107	23,134	16,580	(689)
<i>per share– basic</i>	0.14	0.09	0.06	-
<i>per share– diluted</i>	0.13	0.09	0.06	-
Funds Flow From Operations <sup>(1)</sup>	27,523	16,973	11,699	(10,488)
<i>per share– basic</i>	0.10	0.06	0.05	(0.05)
<i>per share– diluted</i>	0.10	0.06	0.05	(0.05)
Dividends declared	1,983	1,965	1,943	1,749
<i>per share</i>	0.0075	0.0075	0.0075	0.0075
<i>Shares Outstanding</i>				
End of period	264,825,562	262,300,999	261,665,788	253,867,856
Weighted average – basic	264,169,358	261,840,909	258,964,524	230,573,931
Weighted average – diluted	272,554,790	261,840,909	258,964,524	230,573,931

(\$000s, except per share amounts)	Three Months Ended			
	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Revenue	137,149	164,958	187,757	163,137
Gross margin	23,910	24,906	41,258	36,264
Net (loss) income	(23,593)	(114,402)	6,457	1,758
<i>per share– basic</i>	(0.11)	(0.52)	0.03	0.01
<i>per share– diluted</i>	(0.11)	(0.52)	0.03	0.01
EBITDAC <sup>(1)</sup>	6,601	8,473	24,561	19,610
<i>per share– basic</i>	0.03	0.04	0.11	0.09
<i>per share– diluted</i>	0.03	0.04	0.11	0.09
Funds Flow From Operations <sup>(1)</sup>	2,338	7,844	25,375	15,865
<i>per share– basic</i>	0.01	0.04	0.12	0.07
<i>per share– diluted</i>	0.01	0.04	0.11	0.07
Dividends declared	5,079	16,027	18,025	17,949
<i>per share</i>	0.0230	0.0730	0.0825	0.0825
<i>Shares Outstanding</i>				
End of period	222,369,084	220,424,818	219,168,309	217,816,380
Weighted average – basic	220,928,336	219,534,188	218,237,459	217,442,891
Weighted average – diluted	220,928,336	219,534,188	224,545,092	223,738,234

### Notes:

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



## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

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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

### *Senior Facility*

The Company has a syndicated Senior Facility (the "Senior Facility") which allows the Company to borrow up to \$150.0 million. The Senior Facility matures on September 28, 2018 and may be extended by one year upon agreement of the lenders and the Company. 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 0.75% 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 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 Senior Facility are secured by all of the assets of CES and its subsidiaries.

At March 31, 2017, the Company had a net draw of \$43.7 million on its Senior Facility and capitalized transaction costs pertaining to the Senior Facility of \$0.5 million (December 31, 2016 – net draw of \$nil, net of capitalized transaction costs of \$0.6 million). The maximum available draw on the Senior Facility at March 31, 2017 was \$150.0 million (December 31, 2016 – \$121.4 million). As at the date of this MD&A, the Company had a net draw of approximately \$50.0 million on its Senior Facility. As at March 31, 2017, the Company had positive net working capital of \$267.7 million as compared with \$222.3 million at December 31, 2016.

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

- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.25 to 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:
  - 1.50:1.00 for the period ending December 31, 2016;
  - 1.75:1.00 for the period ending March 31, 2017; and
  - 2.00:1.00 thereafter.

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. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.
- Senior Funded Debt is defined as Total Net Funded Debt, as defined below, minus the principal amount owing on the Company's Senior Notes.
- 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.

The above noted definitions are not recognized under IFRS and are provided strictly for the purposes of the Company's Senior Facility covenant calculations.

As at March 31, 2017, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

The Company's debt covenants are calculated as follows:

<i>\$000s</i>	As at	
	March 31, 2017	December 31, 2016
Senior Funded Debt to trailing EBITDA Ratio (Must be < 2.25:1.00)		
Senior Funded Debt	63,670	4,138
EBITDA for the four quarters ended	84,163	53,969
Ratio	0.757	0.077
EBITDA to Interest Expense (Must be > 1.75:1.00)		
EBITDA for the four quarters ended	84,163	53,969
Interest Expense for the four quarters ended	23,340	23,189
Ratio	3.606	2.327

#### **Senior Notes**

At March 31, 2017, the Company had \$300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2016 - \$300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17<sup>th</sup> and October 17<sup>th</sup>. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after April 17, 2017. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt. As at the date of this MD&A the Senior Notes were trading over par.

On March 10, 2017, the Company announced its intention to opportunistically refinance its outstanding Senior Notes in what appeared to be a favourable window in the Canadian debt markets by conducting a private placement offering (the "Offering") of \$300.0 million aggregate principal amount Senior Unsecured Notes due 2025. In conjunction with the Offering, the Company commenced an offer to purchase (the "Tender Offer") for cash any and all of its outstanding \$300.0 million 7.375% Senior Notes from the holders thereof. On March 17, 2017, the Company elected to terminate its previously announced Tender Offer and withdrew its proposed private placement to fund the purchase of the 7.375% Senior Notes due to adverse market conditions.

#### **Other Indebtedness**

In addition to the above, CES has non-bank vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.12%, and have termination dates ranging from April 2017 through June 2021. At March 31, 2017, outstanding vehicle and equipment finance lease obligations totalled \$16.3 million as compared to \$14.7 million at December 31, 2016.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

The following table details the remaining contractual maturities of the Company's financial liabilities as of March 31, 2017:

\$000s	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	104,166	-	-	-	-	<b>104,166</b>
Dividends payable <sup>(2)</sup>	662	-	-	-	-	<b>662</b>
Income taxes payable	-	4,098	-	-	-	<b>4,098</b>
Deferred acquisition consideration	-	8,893	370	150	-	<b>9,413</b>
Senior Notes <sup>(4)</sup>	-	-	-	300,000	-	<b>300,000</b>
Interest on Senior Notes	11,063	11,063	22,125	33,187	-	<b>77,438</b>
Finance lease obligations at floating interest rates <sup>(3)</sup>	1,398	6,031	5,579	3,332	-	<b>16,340</b>
Office operating leases	1,183	5,145	4,719	6,309	2,986	<b>20,342</b>
	118,472	35,230	32,793	342,978	2,986	<b>532,459</b>

#### Notes:

<sup>1</sup> Payments denominated in foreign currencies have been translated using the appropriate March 31, 2017 exchange rate

<sup>2</sup> Dividends declared as of March 31, 2017

<sup>3</sup> Finance lease obligations reflect principal payments and excludes any associated interest portion

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

As of the date 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 March 31, 2017, cash flow from operating activities was an outflow of \$34.3 million compared to an inflow of \$37.7 million during the three months ended March 31, 2016, with the decrease being primarily as a result of the change in non-cash working capital, offset by the increase in net income quarter over quarter.

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 March 31, 2017, Funds Flow From Operations was an inflow of \$27.5 million, compared to \$2.3 million for the three months ended March 31, 2016. The increase in Funds Flow from Operations from Q1 2016 to Q1 2017 is largely as a result of the increase in activity in the quarter and resulting impact on net operating cash flows during the fourth quarter.

\$000's	Three Months Ended	
	March 31,	2016
	2017	
Cash provided by operating activities	<b>(34,318)</b>	37,715
Adjust for:		
Change in non-cash operating working capital	<b>61,841</b>	(35,377)
Funds Flow From Operations <sup>(1)</sup>	<b>27,523</b>	2,338

#### Notes:

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

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

#### *Cash Flows from Investing Activities*

For the three months ended March 31, 2017, net cash outflows from investing activities totalled \$19.9 million, an increase from the \$9.2 million outflow from investing activities during the three months ended March 31, 2016, primarily as a result the increase in cash outflows for business combinations of \$10.1 million in the current quarter as compared to \$nil in Q1 2016, and the increase in investment in property and equipment in Q1 2017 compared to Q1 2016 by \$2.1 million as a result of increased expansion capital deployed in the quarter.

For the three months ended March 31, 2017, \$10.9 million was spent on property and equipment (net of \$3.8 million in asset financing and vehicle leases). During the quarter, CES had \$3.9 million of additions related to Maintenance Capital and \$10.2 million of additions related to Expansion Capital including asset and vehicle financing. Notable expansion additions during the quarter ended March 31, 2017 include: \$3.8 million in trucks and trailers, \$2.2 million for warehouse and facilities, \$1.5 million in vehicles, \$1.1 million for machinery and field equipment, \$0.9 million for processing equipment, \$0.5 million for tanks, and \$0.2 million for other expansion additions.

Expansion Capital expenditures in Q1 2017 were primarily related to the continued expansion of the JACAM, Catalyst, and PureChem facilities. Details of investment made in property and equipment are as follows:

\$000's	Three Months Ended March 31,	
	2017	2016
Expansion Capital <sup>(1)</sup>	10,212	9,056
Maintenance Capital <sup>(1)</sup>	3,865	383
Total investment in property and equipment	14,077	9,439
Asset financing and leases	(3,754)	(1,102)
Capital expenditures	10,323	8,337
Change in non-cash investing working capital	535	422
Cash used for investment in property and equipment	10,858	8,759

#### *Notes:*

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

Historically, 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 2017, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately \$50.0 million, of which an estimated \$14.0 million will be maintenance capital additions, and an estimated \$36.0 million will be for expansion capital additions.

#### *Cash Flows from Financing Activities*

For the three months ended March 31, 2017, cash flows from financing activities totalled a cash inflow of \$40.8 million compared to a cash outflow of \$11.7 million during the comparative prior year period. This year-over-year increase in cash inflows from financing activities is primarily due to the increased draws on the Senior Facility, offset by the reduced level of dividends paid in Q1 2017 when compared to Q1 2016.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

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 March 31,	
	2017	2016
Cash provided by operating activities	(34,318)	37,715
Adjust for:		
Change in non-cash operating working capital	61,841	(35,377)
Funds Flow From Operations <sup>(1)</sup>	27,523	2,338
less: Maintenance Capital <sup>(2)</sup>	(3,865)	(383)
Distributable Earnings <sup>(1)</sup>	23,658	1,955
Dividends declared	1,983	5,079
Payout Ratio <sup>(1)</sup>	8%	260%

#### 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 \$23.7 million for the three months ended March 31, 2017, compared with \$2.0 million for the same period in 2016. During the three months ended March 31, 2017, CES declared monthly dividends totalling \$0.0075 per share for the quarter. During the first quarter of 2017, the Payout Ratio was 8% as compared to 260% for the first quarter of 2016.

#### Dividend Policy

The Company declared dividends to holders of common shares for the three months ended March 31, 2017, as follows:

\$000s except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	\$0.0025	660
February	Feb 28	Mar 15	\$0.0025	661
March	Mar 31	Apr 13	\$0.0025	662
Total dividends declared during the period			\$0.0075	1,983

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. At this time, CES intends to continue to pay 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 increased. Over the long-term, CES' business model has historically shown it can support a 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.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

Subsequent to March 31, 2017, the Company declared dividends to holders of common shares in the amount of \$0.0025 per common share payable on May 15, 2017, for shareholders of record on April 28, 2017. CES will continue to be protective of its balance sheet and provide liquidity to fund potential growth initiatives by being prudent with its cash dividend going forward, particularly if the volatility in the oil price environment continues.

#### **Shareholders' Equity**

As of March 31, 2017, CES had a total of 264,825,562 common shares outstanding. As of the date of this MD&A, CES had a total of 264,896,697 common shares outstanding.

#### **Stock-based Compensation,**

As at March 31, 2017, a total of 26,482,556 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 7,653,256 common shares remained available for grant.

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

At March 31, 2017, a total of 13,819,400 Share Rights were outstanding (December 31, 2016 – 14,045,400) at a weighted average exercise price of \$6.32 (assuming all SRIP's are exercised at their respective original exercise price) of which 5,143,066 were exercisable. As of the date of this MD&A, an aggregate of 13,746,400 Share Rights remaining outstanding, of which 5,091,066 are exercisable.

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

At March 31, 2017, a total of 5,009,900 Restricted Share Units were outstanding (December 31, 2016 – 4,858,585) at a weighted average issuance price of \$5.41 none of which were vested. As of the date of this MD&A, an aggregate of 5,222,689 Restricted Share Units remain outstanding, none of which have vested.

#### **Commitments**

At March 31, 2017, CES had the following additional commitments not included as liabilities on its statement of financial position:

<i>\$000s</i>	<b>2017 - 9 months</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Office and facility rent	4,892	5,354	3,673	2,166	1,171	<b>17,256</b>

*Payments denominated in foreign currencies have been translated using the appropriate March 31, 2017 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 or potential claims.

## **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

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, 2016, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2016.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2017. 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, 2016.

## **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 three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

In accordance with the provisions of NI 52-109, Management has limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies, and procedures of Catalyst, which was acquired on August 1, 2016. Management is currently reviewing the Catalyst ICFR systems and processes and has not identified any significant design or operating deficiencies to date.

While the President and Chief Executive Officer and Chief Financial Officer believe that CES' disclosure controls and procedures ("DC&P") and ICFR 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' 2016 Annual Report, CES' Annual Information Form dated March 9, 2017 in respect of the year ended December 31, 2016, and CES' Information Circular in respect to the June 16, 2016 Annual General and Special Meeting of shareholders each of which are available on the 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, fracturing 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 on a volume basis 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.

Despite the improvement in oil prices, in general oil, natural gas liquids and natural gas commodity prices in North America continue to see weakness, 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. Crude prices were depressed in 2016, with West Texas Intermediate ("WTI") reaching a low in February 2016 of USD\$26.05/bbl, a price that was last seen in May 2003. Oil prices improved in the last half of 2016 but prices continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward curves for 2017 and 2018 are trading right around USD\$50/bbl which is far below the USD\$100/bbl pricing enjoyed by operators in 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



## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three Months Ended March 31, 2017

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uncertainty around the ability for WCSB producers to reach markets given the status of several proposed pipeline projects, the potential for a change to US trade policies, tax reform including a potential Border Adjustment Tax ("BAT"), 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. With gas in storage above five year averages, North America has most quoted spot prices trading around USD\$3.00 per MMBtu, and the futures curve for Nymex Henry Hub is trading below USD\$3.00 per MMBtu for 2017 and 2018.

The volatility in the financial markets has impacted the general availability of both credit and equity financing in the marketplace. World-wide political and economic risks seem to be intensifying and, although there is more optimism for stronger economic growth in the US, there are added risks and uncertainties around the impact of new policies proposed by the recently elected Trump administration, including, but not limited to, the renegotiation of international trade agreements; the potential changes to US trade policies; and tax reform including a potential BAT. Despite CES' successful issuance of equity through the Offering completed in June 2016, in general since the fall of 2014 there has been a retreat in the energy equity markets and in particular energy related debt markets as a result of low commodity prices. As demonstrated by CES' withdrawal in March 2017 of its opportunistic attempt to refinance its outstanding Senior Notes it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit 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. At March 31, 2017, CES is in compliance with terms and covenants of all of its lending agreements.

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. Due to financial constraints of our customers, this reduced level of activity will likely outlast 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. As the industry recovers from the trough activity levels of 2016, the demand for skilled employees has been increasing and the supply of top quality, experienced talent has been limited. 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. Although the Company maintains insurance policies, such insurance may not provide adequate coverage in all circumstances, nor are all such risks insurable. It is possible that the Company's insurance coverage will not be sufficient to address the costs arising out of the allocation of liabilities and risk of loss.

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 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.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2017

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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. In addition, the Alberta Government has recently implemented a carbon levy. Initial indications are that the carbon levy is an additional cost for oil and gas producers in the province. However, the exact effect of the carbon levy and its impact on CES' business is indeterminable at this time. The potential for future changes in these and other jurisdictions for additional royalties, levies and other taxes, and other climate change related taxes is an on-going risk for the oilfield services sector.

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 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, new tax legislation, or changes in administrative positions of tax authorities 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 resulted in the unitholders of the Partnership becoming shareholders of CES 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 Income Tax Act (Canada), 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 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 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). The CRA's proposed reassessment sought to disallow certain tax pools, in which CES would have been obligated to remit cash taxes of approximately \$16.0 million for the three taxation years, plus approximately \$5.0 million in interest to December 31, 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 \$7.0 million has been accrued in the Company's December 31, 2016 consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion. As at March 31, 2017, this amount remains as a current tax payable in the consolidated financial statements.

Reference should be made to CES' Annual Information Form dated March 9, 2017 for the year ended December 31, 2016, 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

The past two years have been extremely challenging as CES has navigated through the protracted industry downturn. With the improvement in industry activity in the second half of 2016 and to date in 2017, CES is modestly optimistic with its outlook. If WTI can remain at or above the USD\$50/bbl mark, most of our customers initiatives are economic and activity should continue to improve in 2017 or at minimum not retrench to first half 2016 levels. As the industry has rebounded, CES has gained market share in all of its segments by demonstrating to customers the benefits of CES' technologies, service, and attention to problem solving. CES has yet to realize any meaningful price increases in the recovery. The improvement in financial performance is

## **Canadian Energy Services & Technology Corp.**

Management's Discussion and Analysis

Three Months Ended March 31, 2017

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evidence of the operating leverage in our consumable chemicals business model, and is a direct result of the cost reduction initiatives taken in 2016, combined with increased activity levels as CES has come off its fixed cost base.

CES believes that over time it can continue to grow its share of the oilfield consumable chemical markets in which it competes. The Catalyst Acquisition in 2016 was another significant step forward in this regard as CES sees the Permian Basin having the most near-term opportunities for growth. CES' strategy is to utilize its decentralized management model; its vertically integrated manufacturing model; its problem solving through science approach; its patented and proprietary technologies; and its superior execution to increase market share. The downturn has made many middlemen, or competitors who are simply resellers of other company's products, redundant. By being basic in the manufacture of the consumable chemicals it sells, CES continues to be price competitive and a technology leader. Recent competitor consolidations and business failures will provide further opportunities for CES in this recovery period. CES believes that its unique value proposition makes it the premier independent provider of technically advanced consumable chemical solutions to the North American oilfield.

Emerging from the downturn, CES' balance sheet is well positioned to capitalize on the improving oilfield activity. In Q1 2017, CES built positive net working capital and began to draw on its Senior Facility. As at the date of this MD&A, the Company had a net draw of approximately \$50.0 million on its Senior Facility and its Senior Notes in the amount of \$300 million are not due until April 2020. In 2017, it is expected that EBITDAC will exceed expenditures on cash interest, capital expenditures, and dividends.

CES will continue to assess M&A opportunities that will improve CES' competitive position and enhance profitability. Any acquisitions must meet CES' stringent financial and operational metrics. In its core businesses, CES will focus on growing market share, controlling costs, developing or acquiring new technologies, and making strategic investments as required to position the business to capitalize on the industry rebound.

### **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>1,2,4</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 Corporate Governance and Nominating  
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 Professional 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

#### CORPORATE OFFICE

Suite 1400, 700 – 4<sup>th</sup> Avenue SW  
Calgary, AB T2P 3J4  
Phone: 403-269-2800  
Toll Free: 1-888-785-6695  
Fax: 403-266-5708

#### CANADIAN BUSINESS UNITS

PureChem Services  
Suite 1400, 700 – 4<sup>th</sup> Avenue SW  
Calgary, AB T2P 3J4  
Phone: 403-269-2800  
Toll Free: 1-888-785-6695  
Fax: 403-266-5708

Sialco Materials Ltd.  
6605 Dennett Place  
Delta, BC V4G 1N4  
Phone: 604-940-4777  
Toll Free: 1-800-335-0122  
Fax: 604-940-4757

Clear Environmental Solutions  
Suite 720, 736 – 8th Avenue SW  
Calgary, AB T2P 1H4  
Phone: 403-263-5953  
Fax: 403-229-1306

EQUAL Transport  
18029 – Highway 10 East  
Edson, AB T7E 1V6  
Phone: 780-728-0067  
Fax: 780-728-0068

#### US BUSINESS UNITS

AES Drilling Fluids/AES Frac Fluids  
Suite 230, 11767 Katy Freeway  
Houston, TX 77079  
Phone: 281-556-5628  
Fax: 281-589-7150

JACAM Chemical Company  
205 S. Broadway  
Sterling, KS 67579  
Phone: 620-278-3355  
Fax: 620-278-2112

Catalyst Oilfield Services  
11999 East Highway 158  
Gardendale, TX 79758  
Phone: 432-563-0727  
Fax: 432-224-1038

[www.canadianenergyservices.com](http://www.canadianenergyservices.com)