

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp. ("CES" or the "Company") for the three and nine months ended September 30, 2013, and the audited annual consolidated financial statements and notes thereto for the years ended December 31, 2012 and 2011, and CES' 2012 Annual Information Form. This MD&A is dated November 7, 2013, and incorporates all relevant Company information to that date.*

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

*In particular, this MD&A may contain forward-looking information pertaining to the following: future estimates as to dividend levels; capital expenditure programs for oil and natural gas exploration, development, production, processing and transportation; supply and demand for CES' products and services; industry activity levels; commodity prices; treatment under governmental regulatory and taxation regimes; dependence on equipment suppliers; dependence on suppliers of inventory and product inputs; equipment improvements; dependence on personnel; collection of accounts receivable; operating risk liability; expectations regarding market prices and costs; expansion of services in Canada, the United States and internationally; development of new technologies; expectations regarding CES' growth opportunities in the United States; the effect of the JACAM Acquisition and the AES Permian Acquisition on the Corporation, the Corporation's plans to integrate JACAM and AES Permian with the operations of CES and management of CES' expectation of the effect of both the JACAM Acquisition and AES Permian Acquisition on CES' cash flow, revenues, EBITDAC and net income; expectations regarding the performance or expansion of CES' environmental and transportation operations; expectations regarding demand for CES' services and technology if drilling activity levels increase; investments in research and development and technology advancements; access to debt and capital markets; and competitive conditions.*

*CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; demand for consumable fluids and chemical oilfield services; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; reassessment and audit risk associated with the Conversion and other tax filing matters; changes to the royalty regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; changes as a result of IFRS adoption; 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, 2012 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.*

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### **BUSINESS OF CES**

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

CES has been able to capitalize on the growing market demand for advanced consumable fluids and chemical solutions for drilling fluids, production chemicals, and other specialty chemicals used in the North American oil and gas industry. CES' business model is relatively asset light and requires limited re-investment capital to grow while generating significant free cash flow. CES returns much of this free cash flow back to shareholders through its monthly dividend.

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, Moose Mountain Mud ("MMM"), PureChem Services ("PureChem"), Clear Environmental Solutions ("Clear"), and EQUAL Transport ("Equal"). In the US, CES operates under the trade names AES Drilling Fluids ("AES"), AES Drilling Fluids Permian ("AES Permian", previously referred to as Venture) and JACAM Chemicals ("JACAM").

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

CES has two complimentary business segments that operate in the WCSB: Clear which provides environmental consulting and drilling fluids waste disposal services and Equal which provides its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work.

With the 2013 addition of JACAM's state of the art laboratory in Sterling, Kansas, CES now operates four separate lab facilities across North America which also includes, Houston, Texas; Carlyle, Saskatchewan; and Calgary, Alberta. CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas and its Canadian chemical blending facility is located in Carlyle, Saskatchewan. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

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### NON-GAAP MEASURES

The accompanying interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS or previous generally accepted accounting principles ("GAAP") 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 are further defined for use throughout this MD&A as follows:

**EBITDAC** – 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, and stock-based compensation. EBITDAC is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of CES to generate cash from operations. EBITDAC was calculated as follows:

\$000's	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	12,600	7,952	24,418	25,022
Add back (deduct):				
Depreciation in cost of sales	4,221	1,901	10,471	5,501
Depreciation and amortization in general and administrative expenses	3,159	947	7,852	2,798
Interest expense, net of interest income	4,920	605	12,584	2,533
Amortization of capitalized deferred financing costs	159	124	482	166
Current income tax expense	828	3,563	2,663	12,671
Deferred income tax expense	3,321	650	6,700	2,004
Stock-based compensation	3,601	1,778	8,293	4,584
Unrealized foreign exchange loss (gain)	(45)	(220)	(39)	(350)
Unrealized derivative loss (gain)	(166)	31	41	73
Gain on disposal of assets	(8)	(5)	(130)	(125)
EBITDAC	32,590	17,326	73,335	54,877

**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. Funds Flow From Operations is calculated as follows:

\$000's	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cash provided by operating activities	5,450	16,789	23,563	49,605
Adjust for:				
Change in non-cash operating working capital	21,392	(3,716)	34,525	(9,974)
Funds Flow From Operations	26,842	13,073	58,088	39,631

**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. Distributable Earnings is calculated as follows:

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\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	5,450	16,789	23,563	49,605
Adjust for:				
Change in non-cash operating working capital	21,392	(3,716)	34,525	(9,974)
Funds Flow From Operations	26,842	13,073	58,088	39,631
Maintenance Capital <sup>(1)</sup>	(1,141)	(155)	(2,952)	(795)
Distributable Earnings	25,701	12,918	55,136	38,836

### Notes:

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

**Gross margin** – represents the profit earned on revenue after deducting the associated costs of sales including cost of products, field labour, field related depreciation, and all other related field related operating costs. Gross margin is computed based on the revenue and cost of sales information contained in the Company's consolidated statement of comprehensive income. Management believes this metric provides a good measure of the operating performance at the field level. Due to the inclusion or exclusion of certain cost of sales items by the Company, the computation of gross margin may not be comparable to other companies.

**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 determining the cash operating margin of the Company. Cash Gross Margin is calculated as follows:

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Gross margin	50,250	27,885	119,726	88,766
as a percentage of revenue	28%	24%	26%	24%
Add back (deduct):				
Depreciation included in cost of sales	4,221	1,901	10,471	5,501
Gain on disposal of assets included in cost of sales	(8)	(5)	(130)	(125)
Cash Gross Margin	54,463	29,781	130,067	94,142
as a percentage of revenue	30%	26%	28%	25%

**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 determining the cash general and administrative expenses of the Company. Cash General and Administrative Expenses Costs is calculated as follows:

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
General and administrative costs	28,171	15,200	72,379	46,581
as a percentage of revenue	15%	13%	16%	12%
Deduct non-cash expenses included in general & administrative costs:				
Stock-based compensation	3,601	1,778	8,293	4,584
Depreciation & amortization	3,159	947	7,852	2,798
Cash General and Administrative Costs	21,411	12,475	56,234	39,199
as a percentage of revenue	12%	11%	12%	10%

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**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 Second Amended Senior Facility. Management believes that this metric assists in determining the cash interest expenses of the Company. Cash Interest Expense is calculated as follows:

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Total interest expense, net of interest income	5,079	729	13,066	2,699
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	159	124	482	166
Cash Interest Expense	4,920	605	12,584	2,533

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Dividends declared	11,491	8,367	31,589	24,447
Distributable Earnings	25,701	12,918	55,136	38,836
Payout Ratio	45%	65%	57%	63%

## 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.

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

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

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### FINANCIAL HIGHLIGHTS

Summary Financial Results (\$000's, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Revenue	<b>182,274</b>	115,585	58%	<b>462,249</b>	376,271	23%
Gross margin <sup>(1)</sup>	<b>50,250</b>	27,885	80%	<b>119,726</b>	88,766	35%
Gross margin percentage of revenue <sup>(1)</sup>	<b>28%</b>	24%		<b>26%</b>	24%	
Income before taxes	<b>16,749</b>	12,165	38%	<b>33,781</b>	39,697	(15%)
<i>per share – basic</i>	<b>0.26</b>	0.22	18%	<b>0.54</b>	0.71	(24%)
<i>per share - diluted</i>	<b>0.25</b>	0.21	19%	<b>0.52</b>	0.69	(25%)
Net income	<b>12,600</b>	7,952	58%	<b>24,418</b>	25,022	(2%)
<i>per share – basic</i>	<b>0.19</b>	0.14	36%	<b>0.39</b>	0.45	(13%)
<i>per share - diluted</i>	<b>0.19</b>	0.14	36%	<b>0.38</b>	0.44	(14%)
EBITDAC <sup>(1)</sup>	<b>32,590</b>	17,326	88%	<b>73,335</b>	54,877	34%
<i>per share – basic</i>	<b>0.50</b>	0.31	61%	<b>1.18</b>	0.99	19%
<i>per share - diluted</i>	<b>0.48</b>	0.30	60%	<b>1.13</b>	0.96	18%
Funds Flow From Operations <sup>(1)</sup>	<b>26,842</b>	13,073	105%	<b>58,088</b>	39,631	47%
<i>per share – basic</i>	<b>0.41</b>	0.23	78%	<b>0.93</b>	0.71	31%
<i>per share - diluted</i>	<b>0.39</b>	0.23	70%	<b>0.90</b>	0.69	30%
Dividends declared	<b>11,491</b>	8,367	37%	<b>31,589</b>	24,447	29%
<i>per share</i>	<b>0.18</b>	0.15	17%	<b>0.51</b>	0.44	15%

#### Notes:

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

### OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and nine months ended September 30, 2013, in comparison to the three and nine months ended September 30, 2012, for CES are as follows:

- On July 15, 2013, CES completed the acquisition of the drilling fluid business assets of Venture Mud One, L.P. ("Venture Mud") and certain additional assets from affiliates of Venture Mud including VM Transports, LLC, Venture Services LLC, and Venture Services RM, LLC (the "AES Permian Acquisition"). Venture Mud was a West Texas based private drilling fluids company that provides drilling fluid solutions for a number of leading oil and natural gas companies with a focus on the Permian Basin. The effective date of the AES Permian Acquisition was July 1, 2013. The aggregate purchase price was approximately \$58.0 million (US\$55.2 million) consisting of \$13.2 million (US\$12.7 million) in share consideration satisfied through the issuance of 838,076 common shares of the Company, and \$44.8 million (US\$42.5 million) payable in cash, of which \$19.5 million (US\$18.5 million) was paid on the transaction date. Included in cash consideration payable is deferred acquisition consideration is \$19.0 million (US\$18.0 million) which is payable in cash as an earn-out upon the AES Permian division achieving certain EBITDA thresholds over a twenty-four month period post close and \$6.3 million (US\$6.0 million) in other post close and deferred consideration. The AES Permian Acquisition expands the scale and operational capabilities of CES within the US market and provides a platform for growth in the Permian Basin.
- CES generated gross revenue of \$182.3 million during the third quarter of 2013, compared to \$115.6 million for the three months ended September 30, 2012, an increase of \$66.7 million or 58% on a year-over-year basis. Year-to-date, gross revenue totaled \$462.3 million, compared to \$376.3 million, representing an increase of \$86.0 million or 23% on a year-over-year basis. As detailed below, an increase in US-based revenues has driven most of the year-over-year growth, with the largest contributors being the acquisition of the business assets of JACAM Chemicals Company, Inc. (the "JACAM Acquisition") and the AES Permian Acquisition. These acquisitions have further vertically integrated CES' business, expanded CES' product offerings across the oilfield spectrum, provided a significant platform of infrastructure and new

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customers across the US, and increased CES' ability to deliver technically advanced science based solutions to its customers.

- Revenue generated in Canada for the three months ended September 30, 2013 increased by \$15.2 million or 31% compared to the third quarter of 2012, from \$49.4 million to \$64.6 million. For the nine month period ended September 30, 2013, revenue in Canada was \$163.7 million compared to \$160.3 million, representing an increase of \$3.4 million or 2%. The increase in revenues for both the three and nine months ended September 30, 2013 was primarily a result of a year over year shift to a higher percentage of the Company's drilling fluid systems being run in both the deep basin and the oilsands. The drilling fluid systems being run in both these play types typically are more complex and consume more specialty product resulting in higher revenue. In addition, PureChem has also contributed to the increase in revenues as it continued to build-out its production and specialty chemical sales.
- Revenue generated in the US for the three months ended September 30, 2013 was \$117.6 million as compared to the third quarter of 2012 with revenue of \$66.2 million, representing an increase of \$51.5 million or 78% on a year-over-year basis. For the nine month period ended September 30, 2013, revenue in the US was \$298.5 million compared to \$215.9 million, representing an increase of \$82.6 million or 38%. This year-over-year increase is primarily a result of the JACAM Acquisition and AES Permian Acquisition (for which there are no associated revenues in the comparable periods in 2012). Also contributing to the increase in US revenues is organic growth derived from AES resulting in new work in the Rockies region; in the Eagle Ford; and in the Mid-Continent region, which more than offset the reduced activity in the Marcellus shale region of the US.
- For the three month period ended September 30, 2013, CES recorded gross margin of \$50.3 million or 28% of revenue, compared to gross margin of \$27.9 million or 24% of revenue generated in the same period last year. For the nine month period ended September 30, 2013, CES recorded gross margin of \$119.7 million or 26% of revenue, compared to gross margin of \$88.8 million or 24% of revenue in 2012. The increase in gross margin percentages is primarily a result of the JACAM Acquisition and the growth of the PureChem division in Canada, combined with an increase in margins at the drill-bit resulting from sales during the quarter of higher-margin products. Production and specialty chemical products are generally specialized and unique solutions which result in higher gross margins. The Company's drilling fluids product mix contains more mined materials and other commoditized products that lower the overall margin of the drilling related sales.
- For the three month period ended September 30, 2013, CES recorded Cash General and Administrative Costs of \$21.4 million or 12% of revenue, compared to Cash General and Administrative Costs of \$12.5 million or 11% of revenue generated in the same period last year. For the nine month period ended September 30, 2013, CES recorded Cash General and Administrative Costs of \$56.2 million or 12% of revenue, compared to Cash General and Administrative Costs of \$39.2 million or 10% of revenue in 2012. The increase in Cash General and Administrative Costs on an absolute basis is primarily due to general and administrative costs associated with the businesses acquired pursuant to the JACAM Acquisition and AES Permian Acquisition, as well as the ProDrill acquisition and Mega Fluids acquisition which were both completed in Q4 2012 (for which there are no associated costs in the comparable periods in 2012). The slight increase in year-over year Cash General and Administrative Costs as a percent of revenue is due to one-time costs related to the Company's current year business acquisitions, associated financings and internal-reorganization. For the three month period ended September 30, 2013, CES recorded general and administrative costs of \$28.2 million or 15% of revenue, compared to general and administrative costs of \$15.2 million or 13% of revenue generated in the same period last year. For the nine month period ended September 30, 2013, CES recorded general and administrative costs of \$72.4 million or 16% of revenue, compared to general and administrative costs of \$46.6 million or 12% of revenue in 2012. The increase in general and administrative costs as a percentage of revenue for both the quarter-to-date and year-to-date periods is primarily as a result of non-cash expenses recorded within G&A such as stock-based compensation and depreciation and amortization.
- EBITDAC for the three months ended September 30, 2013, was \$32.6 million as compared to \$17.3 million for the three months ended September 30, 2012, representing an increase of \$15.3 million or 88%. CES recorded EBITDAC per share of \$0.50 (\$0.48 diluted) for the three months ended September 30, 2013 versus EBITDAC per share of \$0.31 (\$0.30 diluted) in 2012, an increase of 61% (60% diluted). For the nine month period ended September 30, 2013, EBITDAC totalled \$73.3 million as compared to \$54.9 million in 2012, representing an increase of \$18.5 million or 34%. Year-to-date, CES recorded EBITDAC per share of \$1.18 (\$1.13 diluted) versus EBITDAC per share of \$0.99 (\$0.96 diluted) in 2012.

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- CES recorded net income of \$12.6 million for the three month period ended September 30, 2013 as compared to \$8.0 million in the prior year. CES recorded net income per share of \$0.19 (\$0.19 diluted) for the three months ended September 30, 2013 versus \$0.14 (\$0.14 diluted) in 2012. For the nine month period ended September 30, 2013, CES recorded net income of \$24.4 million, compared with the \$25.0 million generated for the same period last year. Year-over-year net income per share was \$0.39 (\$0.38 diluted) as compared with \$0.45 (\$0.44 diluted) per share for the same period in 2012. The respective year-over-year change in net income was negatively impacted by one-time general and administrative and interest expenses related to the JACAM Acquisition and AES Permian Acquisition; costs associated with financings and the internal re-organization; increased stock-based compensation expense; and increased depreciation and amortization. These changes were partially offset by increased revenues and a decrease in current tax expense resulting from lower taxable income and a reduction in the Company's effective tax rate following the internal re-organization that was completed in Q4 2012.
- At September 30, 2013, based on eligible accounts receivable, inventory and capital asset balances, the maximum available draw on the Second Amended Senior Facility was \$150.0 million (December 31, 2012 - \$98.2 million). At September 30, 2013, the Company had a net draw of \$54.1 million on the Second Amended Senior Facility (December 31, 2012 - \$67.4 million). On October 2, 2013, the Company completed a third amendment to its existing Second Amended Senior Facility ("Third Amended Senior Facility"). Under the Third Amended Senior Facility the Company can freely borrow up to \$150.0 million with the removal of the borrowing base requirement. Further discussion on the Second Amended Senior Facility, the Third Amended Senior Facility, the JACAM Acquisition Bridge Facility, and the Senior Notes is included in the Liquidity and Capital Resources section of this document.
- On August 8, 2013, the Company, through a syndicate of underwriters, completed a bought deal short-form prospectus offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued a total of 2,110,000 common shares of the Company for gross proceeds of \$35.0 million. Net proceeds, after offering expenses and underwriter's commission of approximately \$2.1 million, were \$32.9 million.
- CES continued to maintain a strong statement of financial position or "balance sheet" as at September 30, 2013, with positive net working capital of \$165.0 million (December 31, 2012 - \$114.9 million). The increase in working capital is primarily due to the working capital balances acquired through the JACAM Acquisition and AES Permian Acquisition, as well as the increase in activity during 2013 as compared to Q4 2012. The increase in working capital balances is comprised primarily of a \$67.4 million increase in accounts receivable, a \$13.1 million increase in inventory, a \$7.5 million increase in income taxes receivable, and a \$7.9 reduction in income taxes payable; offset by a \$36.2 million increase in accounts payable and accrued liabilities, and a \$10.5 million increase in the current portion of deferred acquisition consideration related to the AES Permian Acquisition.
- During the third quarter of 2013, CES increased its dividend for the seventh time since January 1, 2010, resulting in monthly dividends in aggregate of \$0.175 per share declared for the quarter. This compares to \$0.15 per share for the comparable quarter in 2012. During the third quarter of 2013, the Payout Ratio averaged 45% as compared to 65% in 2012. For the year-to-date period, the payout ratio averaged 57%, compared to 63% during the same period in 2012. Management and the Board of Directors review the appropriateness of dividends on a monthly basis, taking into account industry conditions, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and Payout Ratio.



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### RESULTS FOR THE PERIODS

<i>(\$000's, except per share amounts)</i>	Three Months Ended September 30,			
	2013	2012	\$ Change	% Change
Revenue	<b>182,274</b>	115,585	66,689	58%
Cost of sales	<b>132,024</b>	87,700	44,324	51%
Gross margin <sup>(1)</sup>	<b>50,250</b>	27,885	22,365	80%
Gross margin percentage of revenue <sup>(1)</sup>	<b>28%</b>	24%		
General and administrative expenses	<b>28,171</b>	15,200	12,971	85%
Finance costs	<b>5,330</b>	520	4,810	925%
Income before taxes	<b>16,749</b>	12,165	4,584	38%
Current income tax expense	<b>828</b>	3,563	(2,735)	(77%)
Deferred income tax expense	<b>3,321</b>	650	2,671	411%
Net income	<b>12,600</b>	7,952	4,648	58%
<i>Net income per share – basic</i>	<b>0.19</b>	0.14	0.05	36%
<i>Net income per share – diluted</i>	<b>0.19</b>	0.14	0.05	36%
EBITDAC <sup>(1)</sup>	<b>32,590</b>	17,326	15,264	88%
<i>Common Shares Outstanding</i>	<b>2013</b>	2012		% Change
End of period	<b>66,546,509</b>	55,873,073		19%
Weighted average				
- basic	<b>65,212,693</b>	55,749,999		17%
- diluted	<b>67,982,881</b>	57,356,168		19%

<i>Financial Position (\$000's)</i>	As at		
	September 30, 2013	December 31, 2012	% Change
Net working capital	<b>164,975</b>	114,899	44%
Total assets	<b>745,875</b>	354,642	110%
Long-term financial liabilities <sup>(2)</sup>	<b>292,157</b>	71,575	308%
Shareholders' equity	<b>339,117</b>	215,420	57%

#### 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, Second Amended Senior Facility, the Senior Notes, vehicle financing, and finance leases.

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(\$000's, except per share amounts)	Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change
Revenue	<b>462,249</b>	376,271	85,978	23%
Cost of sales	<b>342,523</b>	287,505	55,018	19%
Gross margin <sup>(1)</sup>	<b>119,726</b>	88,766	30,960	35%
Gross margin percentage of revenue <sup>(1)</sup>	<b>26%</b>	24%		
General and administrative expenses	<b>72,379</b>	46,581	25,798	55%
Finance costs	<b>13,566</b>	2,488	11,078	445%
Income before taxes	<b>33,781</b>	39,697	(5,916)	(15%)
Current income tax expense	<b>2,663</b>	12,671	(10,008)	(79%)
Deferred income tax expense	<b>6,700</b>	2,004	4,696	234%
Net income	<b>24,418</b>	25,022	(604)	(2%)
<i>Net income per share – basic</i>	<b>0.39</b>	0.45	(0.06)	(13%)
<i>Net income per share - diluted</i>	<b>0.38</b>	0.44	(0.06)	(14%)
EBITDAC <sup>(1)</sup>	<b>73,335</b>	54,877	18,458	34%

<i>Common Shares Outstanding</i>	2013	2012	% Change
End of period	<b>66,546,509</b>	55,873,073	19%
Weighted average			
- basic	<b>62,343,079</b>	55,525,233	12%
- diluted	<b>64,795,146</b>	57,261,864	13%

### Notes:

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

### Revenue and Operating Activities

CES generated gross revenue of \$182.3 million during the third quarter of 2013, compared to \$115.6 million for the three months ended September 30, 2012, an increase of \$66.7 million or 58% on a year-over-year basis. For the year-to-date period ending September 30, 2013, the Company recorded \$462.2 million in revenues as compared to \$376.3 million for the comparable period in 2012, an increase of \$86.0 million or 23%.

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

\$000's	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Canada	<b>64,627</b>	49,407	<b>163,702</b>	160,337
United States	<b>117,647</b>	66,178	<b>298,547</b>	215,934
Total	<b>182,274</b>	115,585	<b>462,249</b>	376,271

Revenue from the Company's Canadian operations in Q3 2013 was \$64.6 million which is an increase of \$15.2 million or 31% over Q3 2012 revenue of \$49.4 million. Despite wet weather conditions that hindered activity in July activity steadily picked-up in August and September. In addition, drill-bit related activity saw an increase in work in both the deep basin and the oilsands resulting in higher revenue and PureChem continued to build-out its production and specialty chemical sales. At the drill-bit in Q3 2013, industry rig counts in Canada increased by 2% compared to Q3 2012, and CES Operating Days increased in line with industry rig counts by 3%. Drill-bit-related Canadian Market Share increased from an estimated 30% in Q3 2012 to an estimated 31% in Q3 2013.

For the year-to-date period ended September 30, 2013, revenue in Canada was \$163.7 million compared to \$160.3 million, representing an increase of \$3.4 million or 2%. This increase was a result of the shift to a higher percentage of the Company's drilling fluid systems being run in both the deep basin and in the oilsands resulting in higher revenue plus additional revenue generated by PureChem, partially offset by a decrease in revenues as a result of the reduced activity levels and customer spending witnessed in the Company's drilling fluids divisions in the first quarter of 2013. Year-to-date, industry rig counts in

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Canada decreased by 6% compared to industry rig counts during the nine months ended September 30, 2012. In line with the decrease in industry rig counts, CES' year-to-date Operating Days decreased by 12% compared to the nine months ended September 30, 2012.

Revenue from the Company's US operations for the three months ended September 30, 2013 was \$117.6 million as compared to the third quarter of 2012 with revenue of \$66.2 million, representing an increase of \$51.5 million or 78% on a year-over-year basis. For the nine month period ended September 30, 2013, revenue from US operations was \$298.5 million, compared to \$215.9 million for the same period in 2012. The year-over-year increase is primarily as a result of the Company expanding its business in the US through the JACAM Acquisition and AES Permian Acquisition, combined with the growth of AES. Revenue generated at the drill-bit was up slightly in Q3 2013 reflecting the effect of the AES Permian Acquisition offset by reduced activity levels in the Marcellus shale region, which was a major contributing factor to the declines in US industry activity outlined below. Despite the declines in industry activity, the Company's US Operating Days increased by 36% for the quarter-to-date comparative period and by 3% for the year-to-date comparative period. The Company's drill-bit-related US Market Share for the three and nine months ended September 30, 2013 was approximately 8% and 7% respectively, representing an increase from 6% for the three and nine months ended September 30, 2012, and is largely as a result of new work added in the US subsequent to the AES Permian Acquisition and the organic growth of AES throughout the Rockies region; Eagle Ford; and in the Mid Continent.

A summary of rig counts and Operating Days for the three and nine months ended September 30, 2013 is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Canadian industry rig count <sup>(1)</sup>	<b>338</b>	332	2%	<b>328</b>	350	(6%)
US industry rig count <sup>(2)</sup>	<b>1,708</b>	1,855	(8%)	<b>1,708</b>	1,909	(11%)

**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 September 30,			Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
Canada	<b>9,499</b>	9,217	3%	<b>26,053</b>	29,442	(12%)
US	<b>12,881</b>	9,492	36%	<b>31,200</b>	30,225	3%
Total Operating Days <sup>(1)</sup>	<b>22,380</b>	18,709	20%	<b>57,253</b>	59,667	(4%)

**Notes:**

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

For the three and nine months ended September 30, 2013, CES' top customers accounted for the following % of total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Top five customers as a % of total revenue	<b>29%</b>	39%	<b>36%</b>	38%
Top customer as a % of total revenue	<b>14%</b>	14%	<b>17%</b>	16%

### Cost of Sales and Gross Margin

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

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services.

CES achieved gross margin of \$50.3 million or 28% of revenue for the three month period ended September 30, 2013, as compared to \$27.9 million or 24% of revenue in the third quarter of 2012. For the nine month period ended September 30, 2013, CES recorded gross margin of \$119.7 million or 26% of revenue, compared to gross margin of \$88.8 million or 24% of revenue. The increase in gross margin as a percentage of revenue is primarily the result of the addition of JACAM and the continued growth of PureChem in 2013, combined with an increase in margins at the drill-bit resulting from sales during the quarter of higher-margin products. Production and specialty chemical product sales generally attract higher margins than the Company's drilling related products and services, and with the addition of JACAM and the continued growth of PureChem in 2013, a higher gross margin contribution is achieved for the Company. In addition, the Company has become further vertically integrated through the JACAM Acquisition and the organic growth of PureChem, resulting in improved margins on manufactured products.

Depreciation, as it relates to assets associated with operations and operating related activities, and gains and losses on disposal of assets are included in cost of sales under IFRS, and accordingly are added back to the gross margin calculation in order to calculate a Cash Gross Margin.

\$000's	Three Months Ended		Nine Months Ended	
	September 30,	2012	September 30,	2012
	<b>2013</b>		<b>2013</b>	
Gross margin <sup>(1)</sup>	<b>50,250</b>	27,885	<b>119,726</b>	88,766
as a percentage of revenue	<b>28%</b>	24%	<b>26%</b>	24%
Add back (deduct):				
Depreciation included in cost of sales	<b>4,221</b>	1,901	<b>10,471</b>	5,501
Gain on disposal of assets included in cost of sales	<b>(8)</b>	(5)	<b>(130)</b>	(125)
Cash Gross Margin <sup>(1)</sup>	<b>54,463</b>	29,781	<b>130,067</b>	94,142
as a percentage of revenue	<b>30%</b>	26%	<b>28%</b>	25%

Notes:

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

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

The table below details the stock-based compensation and depreciation and amortization which are included in G&A under IFRS, and are deducted in the table from total G&A in order to calculate Cash General and Administrative Costs.

\$000's	Three Months Ended		Nine Months Ended	
	September 30,	2012	September 30,	2012
	<b>2013</b>		<b>2013</b>	
General and administrative costs	<b>28,171</b>	15,200	<b>72,379</b>	46,581
as a percentage of revenue	<b>15%</b>	13%	<b>16%</b>	12%
Deduct non-cash expenses included in general & administrative costs:				
Stock-based compensation	<b>3,601</b>	1,778	<b>8,293</b>	4,584
Depreciation & amortization	<b>3,159</b>	947	<b>7,852</b>	2,798
Cash General and Administrative Costs <sup>(1)</sup>	<b>21,411</b>	12,475	<b>56,234</b>	39,199
as a percentage of revenue	<b>12%</b>	11%	<b>12%</b>	10%

Notes:

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

For the three month period ended September 30, 2013, CES recorded Cash General and Administrative Costs of \$21.4 million or 12% of revenue, compared to Cash General and Administrative Costs of \$12.5 million or 11% of revenue generated in the same period last year. For the nine month period ended September 30, 2013, CES recorded Cash General and Administrative Costs of \$56.2 million or 12% of revenue, compared to Cash General and Administrative Costs of \$39.2 million or 10% of revenue in 2012. The increase in Cash General and Administrative Costs on an absolute basis is primarily due to general and administrative costs associated with the businesses acquired pursuant to the JACAM Acquisition and AES Permian Acquisition, as well as the ProDrill acquisition and Mega Fluids acquisition which were both completed in Q4 2012 (for which there are no associated costs in the comparable periods in 2012). The slight increase in year-over year Cash General and Administrative Costs as a percent of

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revenue is due to one-time costs related to the Company's current year business acquisitions, associated financings and internal-reorganization. For the three month period ended September 30, 2013, CES recorded general and administrative costs of \$28.2 million or 15% of revenue, compared to general and administrative costs of \$15.2 million or 13% of revenue generated in the same period last year. For the nine month period ended September 30, 2013, CES recorded general and administrative costs of \$72.4 million or 16% of revenue, compared to general and administrative costs of \$46.63 million or 12% of revenue in 2012. The increase in general and administrative costs as a percentage of revenue for both the quarter-to-date and year-to-date periods is primarily as a result of non-cash expenses recorded within G&A such as stock-based compensation and depreciation and amortization.

### *Depreciation and Amortization*

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

\$000's	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	4,221	1,901	10,471	5,501
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	2,805	835	6,925	2,488
Depreciation expense on property and equipment	354	112	927	310
	3,159	947	7,852	2,798
Total depreciation and amortization expense	7,380	2,848	18,323	8,299

Depreciation of property and equipment and amortization of intangible assets totalled \$7.4 million for the three month period ended September 30, 2013, as compared to \$2.8 million for the same period in 2012. For the three months ended September 30, 2013, \$4.2 million (2012 – \$1.9 million) of depreciation of property and equipment was included in cost of sales and \$3.2 million (2012 – \$0.9 million) of depreciation and amortization was included in G&A, of which \$2.8 million related to amortization of intangible assets (2012 - \$0.8 million). For the year-to-date period ending September 30, 2013, depreciation of property and equipment and amortization of intangible assets totalled \$18.3 million, as compared to \$8.3 million for the same period in 2012. Of this amount, \$10.5 million (2012 - \$5.5 million) was included in cost of sales and \$7.9 million (2012 - \$2.8 million) was included in G&A, of which \$6.9 million related to amortization of intangible assets (2012 - \$2.5 million). The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's continued capital investment in the expansion of operations in both Canada and the United States as well as the amortization of the Company's intangible assets associated with the Company's acquisitions in fourth quarter of 2012 and in the first nine months of 2013.

### *Finance Costs*

Finance costs were \$5.3 million for the three months ended September 30, 2013, as compared to \$0.5 million during the same period last year. Year-to-date, CES incurred finance costs of \$13.6 million, as compared to \$2.5 million during 2012. The year-over-year increase is primarily as a result of interest incurred on the Senior Notes, and the JACAM Acquisition Bridge Facility.

### *Interest expense*

During the three and nine months ended September 30, 2013, the Company's interest expense included in finance costs consists of interest expense on vehicle financing loans, capitalized lease facilities, the Second Amended Senior Facility, the Senior Notes, and the JACAM Acquisition Bridge Facility. Amortization of capitalized deferred financing costs on both the Senior Notes and the Second Amended 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.

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<i>\$000's</i>	Three Months Ended		Nine Months Ended	
	September 30,	2012	September 30,	2012
	<b>2013</b>		<b>2013</b>	
Total interest expense, net of interest income	<b>5,079</b>	729	<b>13,066</b>	2,699
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	<b>159</b>	124	<b>482</b>	166
Cash Interest Expense <sup>(1)</sup>	<b>4,920</b>	605	<b>12,584</b>	2,533

**Notes:**

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

The interest expense component of Finance costs was \$5.1 million for the three months ended September 30, 2013, compared to \$0.7 million in the third quarter of 2012. For the nine months ended September 30, 2013, interest expense included in finance costs was \$13.1 million, as compared to \$2.7 million for the same period in 2012, resulting in an increase of \$10.4 million. The respective year-over-year increase is primarily a result of the interest incurred on the Senior Notes of \$4.2 million and \$8.0 million during the three and nine month periods ended September 30, 2013, respectively, plus the interest and commitment fees of \$1.6 million incurred on the JACAM Acquisition Bridge Facility.

*Foreign exchange gains and losses*

Finance costs for the three months ended September 30, 2013 include a net foreign exchange loss of \$0.4 million (2012 – a gain of \$0.001 million) primarily related to foreign exchange losses on the Company's US-denominated receivables. For the nine months ended September 30, 2013, CES recorded a net foreign exchange loss of \$0.5 million (2012 – a loss of \$0.02 million), primarily related to foreign exchange losses on the Company's US-denominated liability balances.

*Derivative Gains and Losses*

Finance costs for the three and nine month periods ended September 30, 2013, include a net derivative gain of \$0.1 million and a net loss of \$0.04 million respectively (2012 – a gain of \$0.2 million and a gain of \$0.2 million), relating to its foreign currency derivative contracts. As of September 30, 2013, the Company had a financial derivative asset of net \$nil million relating to its outstanding derivative contracts (December 31, 2012- net asset of \$0.04 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 September 30, 2013, the Company had entered into the following foreign exchange US dollar forward sale contracts to manage its exposure to a portion of expected upcoming US dollar denominated cash flows:

Period	Notional Balance \$000's	Contract Type	Settlement	Average C\$/US\$ Exchange Rate
October 2013	US\$500	Deliverable Forward	Physical Sale	\$1.0263
November 2013	US\$500	Deliverable Forward	Physical Sale	\$1.0270
December 2013	US\$500	Deliverable Forward	Physical Sale	\$1.0277
January 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0283
February 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0289
March 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0295
April 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0303
May 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0282
June 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0440
July 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0455
August 2014	US\$500	Deliverable Forward	Physical Sale	\$1.0461
Total	US\$5,500			\$1.0329

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### *Current and Deferred Income Taxes*

Current income tax expense is related to taxable income in both Canada and the United States. During the three months ended September 30, 2013, the Company recorded a current income tax expense of \$0.8 million as compared to \$3.6 million in 2012. For the nine month period ending September 30, 2013, the Company recorded \$2.7 million in current tax expense, compared to \$12.7 million in the same period in 2012. The year-over-year decrease in current income tax expense is primarily due to lower taxable income in Canada during 2013 as compared to 2012 due to the internal reorganization which occurred in Q4 2012 and the deduction of the interest incurred on the Senior Notes, for which there are no associated deductions in the comparable 2012 periods. In addition, taxable income in the United States was lower for the nine months ended September 30, 2013 due to utilization of tangible and intangible tax pools associated with both the JACAM Acquisition and AES Permian Acquisition and the higher capital asset additions in 2013 for which bonus depreciation is eligible on selected US additions.

In the third quarter of 2013, the Company recorded a deferred income tax expense of \$3.3 million compared to a deferred income tax expense of \$0.7 million in Q3 2012. Year-to-date, the Company recorded a deferred income tax expense of \$6.7 million compared to \$2.0 million for the same period in 2012. The deferred income tax expense recorded for the three and nine months ended September 30, 2013 relates 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. The year-over-year increase in deferred income tax expense is primarily due to the Company being able to record bonus depreciation on selected US additions in 2013.

### *Net Working Capital*

CES continued to maintain a strong statement of financial position or "balance sheet" as at September 30, 2013, with positive net working capital of \$165.0 million (December 31, 2012 - \$114.9 million). The increase in working capital is primarily due to the working capital balances acquired through the JACAM Acquisition and AES Permian Acquisition, as well as the increase in activity during 2013 as compared to Q4 2012. The increase in working capital balances is comprised primarily of a \$67.4 million increase in accounts receivable, a \$13.1 million increase in inventory, a \$7.5 million increase in income taxes receivable, and a \$7.9 reduction in income taxes payable; offset by a \$36.2 million increase in accounts payable and accrued liabilities, and a \$10.5 million increase in the current portion of deferred acquisition consideration related to the AES Permian Acquisition.

### *Total Current Assets*

Total current assets of CES increased from \$172.7 million at December 31, 2012 to \$263.2 million at September 30, 2013. The increase is primarily due to the growth of the oilfield chemical business in the first nine months of 2013, as well as the current asset balances acquired through the JACAM Acquisition and AES Permian Acquisition. These changes resulted in an increase in accounts receivable of \$67.4 million, an increase in inventory of \$13.1 million, and an increase in income taxes receivable of \$7.5 million.

### *Total Long-Term Assets*

Year-to-date, total long-term assets of CES increased by \$300.8 million to \$482.7 million at September 30, 2013 from \$181.9 million at December 31, 2012. The increase is primarily attributable to the long-term assets acquired through the JACAM Acquisition and AES Permian Acquisition, which includes \$55.3 million of property and equipment, \$72.3 million in intangible assets, and \$150.4 million of goodwill based on the Company's preliminary purchase price allocations.

### *Long-Term Financial Liabilities*

CES had long-term debt totalling \$276.4 million at September 30, 2013, compared to \$68.8 million at December 31, 2012, an increase of \$207.7 million. The year-over-year increase in long-term debt is primarily as a result of the Senior Notes issued on April 17, 2013. Additional details are included in the Liquidity and Capital Resources section of this MD&A. At September 30, 2013, long-term debt liabilities were comprised of the following balances:

\$000's	As at	
	September 30, 2013	December 31, 2012
Second Amended Senior Facility	54,444	67,993
Senior Notes	225,000	-
Vehicle financing loans	2,209	2,362
	<b>281,653</b>	70,355
Less net unamortized debt issue costs	(4,106)	(583)
Less current portion of long-term debt	(1,121)	(1,014)
Long-term debt	<b>276,426</b>	68,758

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At September 30, 2013, the Company had finance lease liabilities of \$3.4 million, net of the current portion of \$3.2 million. Total finance lease liabilities have increased by \$1.2 million from December 31, 2012.

<i>\$000's</i>	<b>As at</b>	
	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Finance lease obligations	<b>6,604</b>	5,407
Less current portion of finance lease obligations	<b>(3,198)</b>	(2,590)
Long-term finance lease obligations	<b>3,406</b>	2,817

During the three month period ended September 30, 2013, the Company made long-term scheduled debt and lease repayments totalling \$1.2 million on its finance leases, vehicle debt, and credit facilities.

On October 2, 2013, the Company completed an amendment to its existing Second Amended Senior Facility. The Third Amended Senior Facility allows the Company to freely borrow up to \$150.0 million with the removal of the borrowing base requirement. Additional details on the Company's Long-Term Financial Liabilities are included in the Liquidity and Capital Resources section of this MD&A.

### ***Shareholders' Equity***

Shareholders' equity increased from \$215.4 million at December 31, 2012 to \$339.2 million at September 30, 2013. The increase in shareholders' equity is primarily attributable to the \$74.2 million relating to shares issued as consideration in conjunction with the JACAM Acquisition and AES Permian Acquisition, \$33.5 million in shares issued pursuant to the Offering, \$24.4 million in net income, \$9.4 million relating to the issuance of equity under the Company's stock-based compensation plans, \$8.3 million in stock based compensation expense, a \$5.9 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned US subsidiary, \$4.2 million relating to the issuance of equity pursuant to the acquisition and property and equipment, offset by \$31.6 million of dividends declared by the Company during the first nine months of 2013.



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### QUARTERLY FINANCIAL SUMMARY

(\$000's, except per share amounts)	Three Months Ended			
	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012
Revenue	<b>182,274</b>	130,666	149,309	95,028
Gross margin <sup>(1)</sup>	<b>50,250</b>	31,415	38,061	21,401
Net income	<b>12,600</b>	1,859	9,959	2,847
<i>per share – basic</i>	<b>0.19</b>	0.03	0.17	0.05
<i>per share – diluted</i>	<b>0.19</b>	0.03	0.16	0.05
EBITDAC <sup>(1)</sup>	<b>32,590</b>	17,158	23,587	10,050
<i>per share – basic</i>	<b>0.50</b>	0.27	0.40	0.18
<i>per share – diluted</i>	<b>0.48</b>	0.26	0.39	0.17
Funds Flow From Operations <sup>(1)</sup>	<b>26,842</b>	13,374	17,872	8,603
<i>per share – basic</i>	<b>0.41</b>	0.21	0.30	0.15
<i>per share – diluted</i>	<b>0.39</b>	0.20	0.29	0.15
Dividends declared	<b>11,491</b>	10,386	9,712	9,029
<i>per share</i>	<b>0.18</b>	0.17	0.17	0.16
<i>Shares Outstanding</i>				
End of period	<b>66,546,509</b>	63,080,336	62,657,836	56,847,853
Weighted average – basic	<b>65,212,693</b>	62,861,231	58,885,788	56,193,530
Weighted average – diluted	<b>67,982,881</b>	65,246,514	60,735,878	57,792,055

(\$000's, except per share amounts)	Three Months Ended			
	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Revenue	115,585	104,129	156,557	138,793
Gross margin <sup>(1)</sup>	27,885	23,523	37,358	37,300
Net income	7,952	3,368	13,702	14,873
<i>per share – basic</i>	0.14	0.06	0.25	0.27
<i>per share – diluted</i>	0.14	0.06	0.24	0.26
EBITDAC <sup>(1)</sup>	17,326	12,793	24,759	24,426
<i>per share – basic</i>	0.31	0.23	0.45	0.44
<i>per share – diluted</i>	0.30	0.22	0.43	0.43
Funds Flow From Operations <sup>(1)</sup>	13,073	8,730	17,828	22,705
<i>per share – basic</i>	0.23	0.16	0.32	0.41
<i>per share – diluted</i>	0.23	0.15	0.31	0.40
Dividends declared	8,367	8,339	7,741	7,156
<i>per share – basic</i>	0.15	0.15	0.14	0.13
<i>Shares Outstanding</i>				
End of period	55,873,073	55,681,662	55,381,861	55,138,435
Weighted average – basic	55,749,999	55,567,426	55,255,804	55,001,647
Weighted average – diluted	57,356,168	57,327,933	57,102,551	56,870,630

**Notes:**

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

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2013

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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 fourth and first 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 through the acquisitions of AES Permian and JACAM made in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2013, the Company had net working capital of \$165.0 million (December 31, 2012 - \$114.9 million). The increase in working capital is primarily due to the working capital balances acquired through the JACAM Acquisition and AES Permian Acquisition, as well as the increase in activity during 2013 as compared to Q4 2012. The increase in working capital balances is comprised primarily of a \$67.4 million increase in accounts receivable, a \$13.1 million increase in inventory, a \$7.5 million increase in income taxes receivable, and a \$7.9 reduction in income taxes payable; offset by a \$36.2 million increase in accounts payable and accrued liabilities, and a \$10.5 million increase in the current portion of deferred acquisition consideration related to the AES Permian Acquisition.

To fund a portion of the JACAM Acquisition, on February 26, 2013 the Company completed a second amendment and restatement to its existing syndicated Senior Facility ("Second Amended Senior Facility"). The amendment was completed to provide the Company a bridge facility in the amount of \$160.0 million for the sole purpose of financing the closing of the JACAM Acquisition (the "JACAM Acquisition Bridge Facility"), which was repaid in full on April 17, 2013. With the exception of the change to the Company's debt covenants detailed below, the terms and conditions of Second Amended Senior Facility, excluding the JACAM Acquisition Bridge Facility, remain consistent with the previous Senior Facility.

Additional consideration provided to close the JACAM Acquisition included a \$10.3 million (US\$10.0 million) vendor take back note ("Promissory Note"). This Promissory Note incurred interest at a rate of 0.21% per annum and was repaid on April 18, 2013.

At September 30, 2013, the Company had a net draw of \$54.1 million on the Second Amended Senior Facility (December 31, 2012 - \$67.4 million), net of capitalized transaction cost of \$0.4 million (December 31, 2012 - \$0.5 million). The maximum available draw on the \$150.0 million Second Amended Senior Facility at September 30, 2013, based on eligible accounts receivable, inventory and certain capital asset balances, was \$150.0 million (December 31, 2012 - \$98.2 million).

In conjunction with the Second Amended Senior Facility, the following are the key financial covenants imposed on CES:

- The ratio of total funded debt to EBITDA on a rolling four-quarter basis shall not exceed 4.00 to 1.00.
- The ratio of senior funded debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis. The private placement financing of senior unsecured notes as noted below would not be included in the calculation of senior funded debt.
- The quarterly current assets to current liabilities ratio must not be less than 1.25 to 1.00. For purposes of this calculation, the JACAM Acquisition Bridge Facility was excluded in the computation of current liabilities when it was outstanding.
- The quarterly ratio of EBITDA to interest expense must be more than 3:00 to 1:00 calculated on a rolling four-quarter basis.

As at September 30, 2013, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements.

### *JACAM Acquisition Bridge Facility*

The JACAM Acquisition Bridge Facility was repaid in full on April 17, 2013. The JACAM Acquisition Bridge Facility incurred commitment and other fees of \$1.7 million payable on the date of draw, February 26, 2013. Total interest expense recorded in finance costs, including commitment fees, related to the JACAM Acquisition Bridge Facility for the three and nine months ended September 30, 2013 totaled \$nil million and \$2.6 million, respectively.

## Canadian Energy Services & Technology Corp.

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### *Third Amended Senior Facility*

On October 2, 2013, the Company completed a third amendment to its existing Second Amended Senior Facility. The Third Amended Senior Facility allows the Company to freely borrow up to \$150.0 million with the removal of the borrowing base requirement. In addition, subject to certain terms and conditions, the Company may increase its Third Amended Senior Facility by \$30.0 million to a maximum borrowing of \$180.0 million. The Third Amended Senior Facility has a term to maturity of three years, maturing on October 2, 2016 and may be extended by one year upon the agreement of the lenders and the Company. Amounts drawn on the Third Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% to 1.25%, or the Canadian Bankers Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.50% to 2.25%. The Third Amended Senior Facility has a standby fee ranging from 0.34% to 0.51%. The applicable pricing margins are based on a sliding scale of senior funded debt to EBITDA ratio. The obligations and indebtedness under the Third Amended Senior Facility are secured by all of the assets of CES and its subsidiaries. The covenants on the Third Amended Senior Facility remain consistent with the covenants on the previous Second Amended Senior Facility as noted above with the exception of the elimination of the covenant requiring the quarterly ratio of current assets to current liabilities to not be less than 1.25 to 1.00.

### *Senior Notes Offering*

On April 17, 2013, CES completed the private placement of \$225.0 million of 7.375% senior unsecured notes due on April 17, 2020 (the "Senior Notes"). The Senior Notes were issued at par value. The Senior Notes contain certain early redemption options, which 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. Interest is payable on the Senior Notes semi-annually on April 17 and October 17. 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. During the three and nine months ended September 30, 2013, the Company recorded \$4.2 million and \$8.0 million, respectively in interest expense related to the Senior Notes.

The Company used the net proceeds of \$219.6 million from the Senior Notes offering to: (i) permanently repay its \$160.0 million JACAM Acquisition Bridge Facility and the \$10.3 million Promissory Note incurred in connection with the JACAM Acquisition, (ii) to refinance certain amounts outstanding under its credit facilities, and (iii) for general corporate purposes.

### *Other Indebtedness*

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

- Bank leasing facility of which the Company had an outstanding balance owing on these lease facilities of \$1.9 million at September 30, 2013, as compared to \$2.9 million at December 31, 2012. The Company's floating interest rate leases are for terms ranging to March 2014 with interest on the Company's lease facilities at the bank's prime rate of interest plus 1.75%, resulting in monthly payments of approximately \$0.03 million. The Company's fixed interest rate leases are for terms ranging to March 2016 with interest on the Company's lease facilities at a weighted average rate of 4.57%, resulting in monthly payments of approximately \$0.07 million.
- Vehicle and equipment finance leases are secured by each related vehicle at a weighted average rate of approximately 8.40%, and have termination dates ranging from October 2013 through April 2017. At September 30, 2013, outstanding vehicle and equipment finance lease obligations totalled \$4.7 million as compared to \$2.5 million at December 31, 2012.
- Vehicle financing loans are secured by each related vehicle at a weighted average rate of approximately 6.08%, and have termination dates ranging from January 2014 through October 2016. At September 30, 2013, outstanding vehicle loans totalled \$2.2 million, as compared to \$2.4 million at December 31, 2012.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

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The following table details the remaining contractual maturities of the Company's financial liabilities as of September 30, 2013:

\$000's	Payments Due By Period <sup>(1)</sup>					Total
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	
Accounts payable and accrued liabilities	79,342	-	-	-	-	<b>79,342</b>
Dividends payable <sup>(2)</sup>	3,993	-	-	-	-	<b>3,993</b>
Deferred acquisition consideration	-	10,537	10,097	2,228	-	<b>22,862</b>
Senior Unsecured Notes	-	-	-	-	225,000	<b>225,000</b>
Long-term debt at fixed interest rates <sup>(3)</sup>	186	935	857	231	-	<b>2,209</b>
Long-term debt at floating interest rates <sup>(3)</sup>	-	-	-	54,444	-	<b>54,444</b>
Finance lease obligations at fixed interest rates <sup>(3)</sup>	126	646	775	167	-	<b>1,714</b>
Finance lease obligations at floating interest rates <sup>(3)</sup>	566	1,860	2,076	388	-	<b>4,890</b>
Office operating leases	850	2,002	2,494	3,603	-	<b>8,949</b>
<b>Total</b>	<b>85,063</b>	<b>15,980</b>	<b>16,299</b>	<b>61,061</b>	<b>225,000</b>	<b>403,403</b>

### Notes:

<sup>1</sup> Payments denominated in foreign currencies have been translated at the respective period end exchange rate

<sup>2</sup> Dividends declared as of September 30, 2013

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

Pursuant to the Offering that closed on August 8, 2013, the Company issued a total of 2,110,000 common shares of the Company for gross proceeds of \$35.0 million. Net proceeds, after offering expenses and underwriter's commission of approximately \$2.1 million, were \$32.9 million and were used to repay outstanding indebtedness under the Company's Second Amended Senior Facility and for general corporate purposes.

At the time of the release of this MD&A, management is satisfied that CES has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans and commitments. CES assesses its requirements for capital on an ongoing basis and there can be no guarantee that CES will not have to obtain additional capital to finance the expansion plans of the business or to finance future working capital requirements. In the event that it 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 September 30, 2013, cash flow from operating activities was \$5.5 million compared to \$16.8 million during the prior year, with the decrease being primarily as a result of the change in non-cash working capital, offset by higher depreciation and amortization. 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 September 30, 2013, Funds Flow From Operations was \$26.8 million, compared to a \$13.1 million during Q3 2012.

\$000's	Three Months Ended		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Cash provided by operating activities	<b>5,450</b>	16,789	<b>23,563</b>	49,605
Adjust for:				
Change in non-cash operating working capital	<b>21,392</b>	(3,716)	<b>34,525</b>	(9,974)
<b>Funds Flow From Operations <sup>(1)</sup></b>	<b>26,842</b>	13,073	<b>58,088</b>	39,631

### Notes:

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

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2013

### *Cash Flows from Investing Activities*

For the three months ended September 30, 2013, net cash outflows from investing activities totalled \$30.4 million compared to \$4.2 million for the three months ended September 30, 2012. The increase in net cash outflows from investing activities for the three months ended September 30, 2013 is primarily as a result of the cash paid for the AES Permian Acquisition of \$20.4 million and is also reflective of the growing business with the addition of the JACAM and AES Permian operations, for which associated investing cash flows were not included in the comparative period in 2012.

For the three months ended September 30, 2013, \$10.5 million was spent on property and equipment (net of \$1.5 million in vehicle financing and leases). During the quarter, CES had \$1.1 million of additions related to Maintenance Capital and \$10.7 million of additions related to Expansion Capital gross of vehicle financing. Notable Maintenance Capital additions during the quarter ended September 30, 2013 include: \$0.5 million in vehicles, \$0.5 million in trucks and trailers, and \$0.1 in warehouse equipment and other maintenance additions. Not including the property and equipment acquired through the AES Permian Acquisition, notable expansion additions during the quarter ended September 30, 2013 include: \$3.9 million for warehouse and facilities, \$1.5 million for machinery and field equipment, \$1.5 in vehicles, \$1.4 million in trucks and trailers, \$1.2 million for aircraft, \$0.5 million in computer equipment, \$0.3 million for tanks, and \$0.4 for other expansion additions.

Expansion Capital expenditures in Q3 2013 were higher than historical norms primarily as a result of a number of new capital projects undertaken including the ongoing expansion of the Company's existing operations. The Company is currently constructing a barite grinding facility and liquid mud plant in Texas and continuing the expansion of the JACAM facilities. The Company continues to invest in new warehouse facilities and fluids storage facilities to service customers throughout North America and the other necessary ancillary and supporting equipment required to support these facilities and the corresponding expanded operations.

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,	2012	September 30,	2012
Expansion Capital <sup>(1)</sup>	<b>10,713</b>	3,755	<b>29,511</b>	15,402
Maintenance Capital <sup>(1)</sup>	<b>1,141</b>	155	<b>2,952</b>	795
Total investment in property and equipment	<b>11,854</b>	3,910	<b>32,463</b>	16,197
Asset financing and leases	<b>(1,529)</b>	(685)	<b>(4,404)</b>	(2,435)
Capital expenditures	<b>10,325</b>	3,225	<b>28,059</b>	13,762
Change in non-cash investing working capital	<b>211</b>	1,058	<b>(63)</b>	1,456
Cash used for investment in property and equipment	<b>10,536</b>	4,283	<b>27,996</b>	15,218

#### *Notes:*

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

In general, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated, 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.

### *Cash Flows from Financing Activities*

For the three month period ended September 30, 2013, cash flow from financing activities totalled a cash inflow of \$25.0 million compared to an outflow of \$12.6 million during the comparative prior year period. This year-over-year change is primarily as a result of the Company receiving \$32.9 million in net proceeds from the Offering, offset by shareholder dividend payments of \$10.5 million during the quarter.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2013

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		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Cash provided by (used in) operating activities	5,450	16,789	23,563	49,605
Adjust for:				
Change in non-cash operating working capital	21,392	(3,716)	34,525	(9,974)
Funds Flow From Operations <sup>(1)</sup>	26,842	13,073	58,088	39,631
Maintenance Capital <sup>(2)</sup>	(1,141)	(155)	(2,952)	(795)
Distributable Earnings <sup>(1)</sup>	25,701	12,918	55,136	38,836
Dividends declared	11,491	8,367	31,589	24,447
Payout Ratio <sup>(1)</sup>	45%	65%	57%	63%

**Notes:**

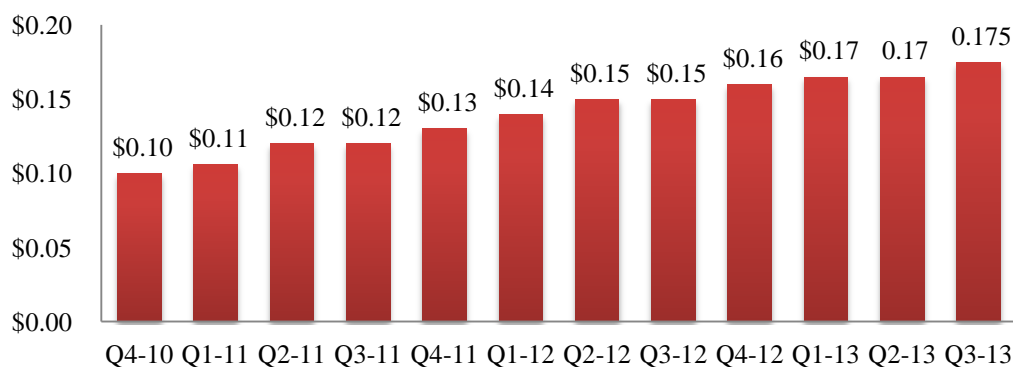
<sup>1</sup> Refer to the "Non-GAAP Measures" for further detail.

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

Distributable Earnings were \$25.7 million for the three months ended September 30, 2013, compared with \$12.9 million for the same period in 2012. During the three months ended September 30, 2013, CES declared monthly dividends of \$0.055 per share for July, and \$0.06 per share for August and September for a total of \$0.175 per share for the quarter.

During the third quarter of 2013, the Payout Ratio was 45% compared to 65% for the third quarter of 2012. The year-over-year decrease in the Payout Ratio is primarily a result of higher distributable earnings in the current year.

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



**Notes:**

<sup>1</sup> Pursuant to the three-for-one split of CES' outstanding common shares on July 13, 2011, all historical per share data has been retroactively adjusted to reflect the stock split.

#### Dividend Policy

In August of 2013, CES increased their dividend for the seventh time since January 1, 2010. During the third quarter of 2013, CES declared monthly dividends of \$0.055 per share for July, and \$0.06 per share for August and September for a total of \$0.175 per share for the quarter. This compares to a total of \$0.15 per share for the comparable quarter in 2012.

## Canadian Energy Services & Technology Corp.

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The Company declared dividends to holders of common shares for the nine months ended September 30, 2013, as follows:

<i>\$000's except per share amounts</i>	<b>Dividend Record Date</b>	<b>Dividend Payment Date</b>	<b>Per Common Share</b>	<b>Total</b>
January	Jan 31	Feb 15	\$0.055	<b>3,133</b>
February	Feb 28	Mar 15	0.055	<b>3,133</b>
March	Mar 28	Apr 15	0.055	<b>3,446</b>
April	Apr 30	May 15	0.055	<b>3,450</b>
May	May 31	Jun 14	0.055	<b>3,467</b>
June	Jun 28	Jul 15	0.055	<b>3,469</b>
July	Jul 31	Aug 15	0.055	<b>3,518</b>
August	Aug 30	Sep 13	0.060	<b>3,980</b>
September	Sep 30	Oct 15	0.060	<b>3,993</b>
<b>Total dividends declared during the period</b>			<b>\$0.505</b>	<b>31,589</b>

Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary significantly based on the Company's financial performance. During periods of relatively strong financial performance, typically associated with higher activity levels at the drill-bit, 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 through CES' credit facilities.

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, CES intends to continue to make cash dividends to shareholders, 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 large proportion of cash flow from operations being paid out as a dividend as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated.

Subsequent to September 30, 2013, CES declared a monthly dividend of \$0.06 per common share to shareholders of record at October 31, 2013 for the month of October 2013.

### ***Shareholders' Equity***

As of September 30, 2013, CES had a total of 66,546,509 common shares outstanding. As of the date of this MD&A, CES had a total of 66,840,325 common shares outstanding.

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

As at September 30, 2013, a total of 6,654,651 common shares were reserved for issuance under the Company's Option Plan, Share Rights Incentive Plan, and Restricted Share Unit Plan of which 2,810,263 remained available for grant.

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

At September 30, 2013, a total of 2,246,748 Share Rights were outstanding (December 31, 2012 – 2,920,088) at a weighted average exercise price of \$8.17 (assuming all SRIP's are exercised at their respective original exercise price) of which 919,900 were exercisable. As of the date of this MD&A, an aggregate of 2,054,848 Share Rights remaining outstanding, of which 1,344,500 are exercisable.

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2013

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

At September 30, 2013, a total of 1,597,640 Restricted Share Units were outstanding (December 31, 2012 – 741,510) at a weighted average issuance price of \$13.44, none of which were vested. As of the date of this MD&A, an aggregate of 1,503,471 Restricted Share Units remain outstanding, none of which have vested.

### c) Option Plan, formerly referred to as the Partnership Unit Option Plan

At September 30, 2013, no options remained outstanding under the Option Plan, as compared to 57,600 outstanding at December 31, 2012.

### Commitments

At September 30, 2013, CES had the following additional commitments not included as liabilities on its statement of financial position:

<i>\$000's</i>	<b>2013 - 3 months</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
Office and facility rent	850	2,639	2,468	1,933	1,059	<b>8,949</b>

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

As of the date of this document, given its financial position, CES anticipates it will be able to meet these commitments as necessary.

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 commitments for any outstanding litigation and any potential claims.

### Related Party Transactions

During the three months ended September 30, 2013, the Company purchased some of the equipment that was previously rented from a company controlled by the spouse of one of the Company's directors. The aggregate purchase price of the equipment was \$1.5 million and was satisfied through the issuance of a two year promissory note. During the three and nine months ended September 30, 2013, the Company made rental and principal payments in the amount of \$0.6 million and \$1.3 million, respectively (2012 - \$0.2 million and \$0.5 million, respectively). As at September 30, 2013, the Company had an outstanding liability of \$1.3 million (December 31, 2012 - \$nil) for the remaining payments.

For the three and nine months ended September 30, 2013, lease payments on equipment and office leases in the amount of \$0.04 million and \$0.1 million, respectively, (2012 - \$0.01 million and \$0.07 million, respectively) were made for rental agreements CES has with companies controlled by a director and insiders of the Company.

During the three months ended September 30, 2013, the Company acquired property and equipment from a company controlled by one of the Company's employees and insiders. The aggregate purchase price was \$5.4 million consisting of \$1.2 million in cash paid on the date of the transaction and \$4.2 million in share consideration satisfied through the issuance of 238,108 common shares of the Company.

These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the possible disclosure of contingent assets and liabilities at the date of the unaudited interim 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, 2012 and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2012.



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Three and Nine Months Ended September 30, 2013

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### RECENT ACCOUNTING PRONOUNCEMENTS

During the three and nine months ended September 30, 2013, there were no revised standards or amendments to IFRS issued. Effective January 1, 2013, the Company adopted certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board ("IASB"). These are as follows: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities", IFRS 13, "Fair Value Measurement", as well as the amendments to IAS 28, "Investments in Associates and Joint Ventures", IAS 27, "Separate Financial Statements", and IAS 1, "Presentation of Financial Statements". The adoption of these amendments and standards has not had a material impact on the accounting policies, methods of computation or presentation applied by the Company.

### CORPORATE GOVERNANCE

#### *Disclosure Controls and Procedures*

Disclosure controls and procedures 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*

Management of CES is responsible for establishing and maintaining internal controls over financial reporting ("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 International Financial Reporting Standards. There have been no changes to CES' internal controls over financial reporting during the three and nine months ended September 30, 2013 that have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting, other than the JACAM Acquisition on March 1, 2013 and the AES Permian Acquisition on July 15, 2013. Management is currently reviewing the JACAM and AES Permian ICFR systems and processes and has not identified any significant design or operating deficiencies to date.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2012 Annual Report, CES' Annual Information Form dated March 28, 2013 in respect of the year ended December 31, 2012, and CES' Information Circular in respect to the June 20, 2013 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; oil, natural gas, and natural gas liquids prices; access to capital markets; and government policies including, but not limited to, royalty, environmental, and industry regulations. Any prolonged or significant decrease in energy prices, economic activity, or an adverse change in government regulations could have a significant negative impact on exploration and development drilling and completion activity in North America and, in turn, demand for CES' products and services.

As a provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield, the volatility in activity experienced at the drill-bit and completion stages is muted by the long-term and less variable revenue generated by CES at the pump-jack and wellhead during the production stage and in the mid-stream, pipeline and transportation phases. As CES grows these facets of its business, the predictability of its earnings should also increase. The revenue and general market consumption of consumable chemicals in these market segments is more stable and predictable than the drilling fluids market, and by all accounts the overall market continues to grow. However, CES is a relative 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.

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Oil, natural gas liquids and natural gas prices in North America continue to see volatility, and in general all trade at discounts to comparable world-wide bench-marks. This increases risk to CES' customers and negatively impacts their available cash flow. Crude oil prices strengthened earlier in 2013 but have recently retreated below \$100/bbl and are likely to continue to see volatility in the face of macro-economic forces. In addition, despite a recent tightening, many operators in the WCSB have been challenged by crude oil pricing differentials versus world benchmarks such as Brent and West Texas Intermediate. Natural gas prices have remained relatively weak since late 2008. Since mid-2012 there has been a modest recovery in natural gas prices in North America, but there is no clear direction on future prices. In the face of high costs, weaker commodity prices, and reduced access to the capital markets, in general operators in Canada have scaled back activity while in the US overall activity has remained flat to slightly down. Activity could slow further if operators' access to capital remains challenged or the price of crude oil falls or the price of natural gas does not recover to more robust levels.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the fourth and first 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. 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 qualified personnel as needed. Over the past few years, the demand for skilled employees has been high and the supply 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.

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, and reviewing and actively following up on older accounts. 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 low natural gas prices persist, or if crude oil prices fall, or volatile capital markets return, 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.

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. As an example, during 2009 and 2010, changes were announced to the royalty regimes and/or drilling incentive programs in Alberta and British Columbia. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the Canadian oilfield services sector.

With the JACAM Acquisition and the AES Permian Acquisition, 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 the US dollar; regulatory risks associated with environmental concerns; and the future impact of increased regulatory requirements.

The volatility in the financial markets over the past five years has impacted the general availability of both credit and equity financing in the marketplace. The economic and sovereign debt issues ongoing in Europe and the generally tepid economic

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forecasts for the North American and world economy result in continued uncertainty. Despite CES' successful issuance of the Senior Notes in Q2 2013, and the successful Offering completed in August 2013, it may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. CES is also reliant on its Third Amended Senior Facility to fund working capital and 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 Third Amended Senior Facility is critical to the effective execution of CES' business plan. To date, CES has not experienced any funding issues under any of its debt facilities.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, state, and provincial jurisdictions in Canada, the US, Luxembourg, and other foreign jurisdictions. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit by the Internal Revenue Services in the United States, the Canada Revenue Agency in Canada, other provincial and state tax authorities, and other governmental tax authorities in foreign jurisdictions. It is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. Although not quantifiable at this time, these differences could potentially have a material impact on future earnings.

Effective January 1, 2010, Canadian Energy Services L.P. (the "Partnership") and Canadian Energy Services Inc. (the "General Partner") completed a transaction with Nevaro Capital Corporation ("Nevaro") which resulted in the Partnership converting from a publicly-traded Canadian limited partnership to a publicly-traded corporation formed under the Canada Business Corporations Act (the "Conversion"). The Conversion resulted in the unitholders of the Partnership becoming shareholders of Canadian Energy Services & Technology Corp. ("CES" or the "Company") with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation. If amendments to existing legislation are proposed or announced, there is a risk that the tax consequences of the Conversion to CES and the unitholders may be materially different than the tax consequences contemplated. While CES is confident in its position, there is a possibility that regulators could challenge the tax consequences of the Conversion or prior transactions of Nevaro or legislation could be enacted or amended, resulting in different tax consequences than those contemplated. Such a challenge or legislation could potentially affect the availability or quantum of the tax basis or other tax accounts of CES. On March 4, 2010, the Minister of Finance (Canada) announced certain amendments to the Income Tax Act (Canada) to restrict the ability to utilize tax losses in transactions, which are similar to the Conversion, where units of a publicly-traded trust or partnership are exchanged for shares of a corporation. However, the amendments as announced are intended to apply to transactions undertaken after March 4, 2010, and as such should not apply to the Conversion. It should be noted that in Q4 2011 CES received a letter from the Canada Revenue Agency ("CRA") requesting information in order to review the Conversion. CES also received an additional verbal request for information in Q3 2012. CES provided the information requested by the CRA and to date has not had any further correspondence with the CRA.

Reference should be made to CES' Annual Information Form dated March 28, 2013 for the period ended December 31, 2012, 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

During Q3 2013, CES continued to make significant strides in advancing its strategic vision of being a leading provider of technically advanced consumable chemical solutions throughout the full life cycle of the oilfield. CES continues to integrate JACAM with the overall business. JACAM products have been introduced into Canada on both the drilling fluids side and through PureChem with very positive results. In the US, initial steps have been undertaken to support AES operations with JACAM manufactured materials and to expand JACAM onto the established AES platform. CES sees the opportunity set for the unique JACAM products expanding as we move forward.

In addition to the integration initiatives and the financial contribution JACAM continues to make, the shift in activity in the US to new work in the Eagle Ford, the addition of significant work in the Mississippi Lime as a result of the Mega Fluids acquisition, and a pick-up of activity in other regions had the US business performing well. The AES Permian Acquisition, completed on July 15, 2013, with its operations focused in the Permian basin in West Texas, has filled the last remaining geographical hole on the US map for CES. CES sees significant opportunities in the US as we continue to leverage our

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platform, product suite and infrastructure. In Canada, despite extended wet weather that slowed July activity, the Canadian business is also performing well and has positive momentum going into Q4 2013 and Q1 2014. In particular the PureChem division continues to build-out across western Canada and drilling fluid revenues have increased with new customer wins mainly attributable to new technologies introduced over the past year.

CES' is reaffirming its expected 2013 guidance last updated in August 2013. CES' expected range of consolidated gross revenue for 2013 will be approximately \$609.0 million to \$649.0 million and expected consolidated EBITDAC will be approximately \$101.0 million to \$111.0 million. CES is also releasing its 2014 guidance. CES' expected range of consolidated gross revenue for 2014 will be approximately \$760.0 million to \$820.0 million and expected consolidated EBITDAC will be approximately \$135.0 million to \$150.0 million. The 2014 guidance reflects the positive growth CES is experiencing across all its business units.

CES' balance sheet remains strong and its financial flexibility was greatly enhanced with the successful placement in April of \$225.0 million aggregate principal amount 7.375% Senior Notes, and the raising of \$35.0 million of equity in the successful Offering completed in August 2013.

Going forward, CES sees significant growth opportunities as a vertically integrated, full cycle provider of oilfield chemical solutions. Although revenue generated at the drill-bit and at the completions stage will remain subject to volatility, operators continue to drill more complex, deeper, and longer horizontal wells that require more chemicals and fluids in general, but also more technically advanced chemical solutions in order to be successfully drilled, cased and completed. Through both its JACAM and PureChem divisions, CES has vertically integrated manufacturing capabilities with unutilized throughput at both its Sterling, KS and Carlyle, SK plants. CES also has a full suite of technically advanced solutions of production chemicals for consumption at the wellhead or pump-jack, and specialty chemicals for the pipeline and mid-stream market. These markets are less volatile and are growing on a year-over-year basis as the volumes of produced hydrocarbons and the associated produced water increases. CES believes over time it can grow its market share within each of these sub-segments of the oilfield consumable chemical market. CES' strategy is to utilize its patented and proprietary technologies and superior execution to increase market share. CES believes that its unique value proposition in this increasingly complex operating environment makes it the premier independent provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield in North America.

The Clear Environmental Solutions division continues to complement CES' core drilling fluids business and has maintained consistently strong results. The Environmental Services division has focused on expanding its operational base in the WCSB and is pursuing opportunities in the oil sands and horizontal drilling markets.

The EQUAL Transport division remains profitable. It is expected this business will continue to be instrumental in supporting the core businesses and be economically viable.

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

On a corporate level, CES continually assesses integrated business opportunities that will keep CES competitive and enhance profitability. However, all acquisitions must meet our stringent financial and operational metrics. CES will also closely manage its dividend levels and capital expenditures in order to preserve its financial strength, its low capital re-investment model and its strong liquidity position.

### **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).

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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</sup>  
Chairman

Colin D. Boyer<sup>1,2</sup>

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

D. Michael G. Stewart<sup>1,3</sup>

Thomas J. Simons

Rodney Carpenter<sup>3</sup>

James (Jim) G. Sherman

Jason West

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

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

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

<sup>3</sup>Member of the Health, Safety and Environment  
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 Waugh  
Vice President

Scott R. Cochlan  
Corporate Secretary

### AUDITORS

Deloitte LLP  
Chartered Accountants, Calgary, AB

### BANKERS

HSBC Bank Canada, Calgary, AB

### SOLICITORS

Torys LLP, Calgary, AB  
Crowe & Dunlevy, Oklahoma City, OK

### REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.  
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