



## **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, 2015, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2014 and 2013, and CES' 2014 Annual Information Form. This MD&A is dated November 12, 2015, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.*

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

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

*CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the United States, and internationally; geopolitical risk; fluctuations in demand for consumable fluids and chemical oilfield services, and the recent downturn in oilfield activity; a decline in activity in the WCSB, the Permian and other basins in which the Company operates; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; the recent declines in prices for oil, and pricing differentials between world pricing and pricing in North America; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of recent fluctuations in value of the U.S. dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; reassessment and audit risk associated with the Conversion and other tax filing matters; changes to the fiscal regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2014 and "Risks and Uncertainties" in this MD&A.*

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

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## THREE-FOR-ONE STOCK SPLIT

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

## BUSINESS OF CES

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



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

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

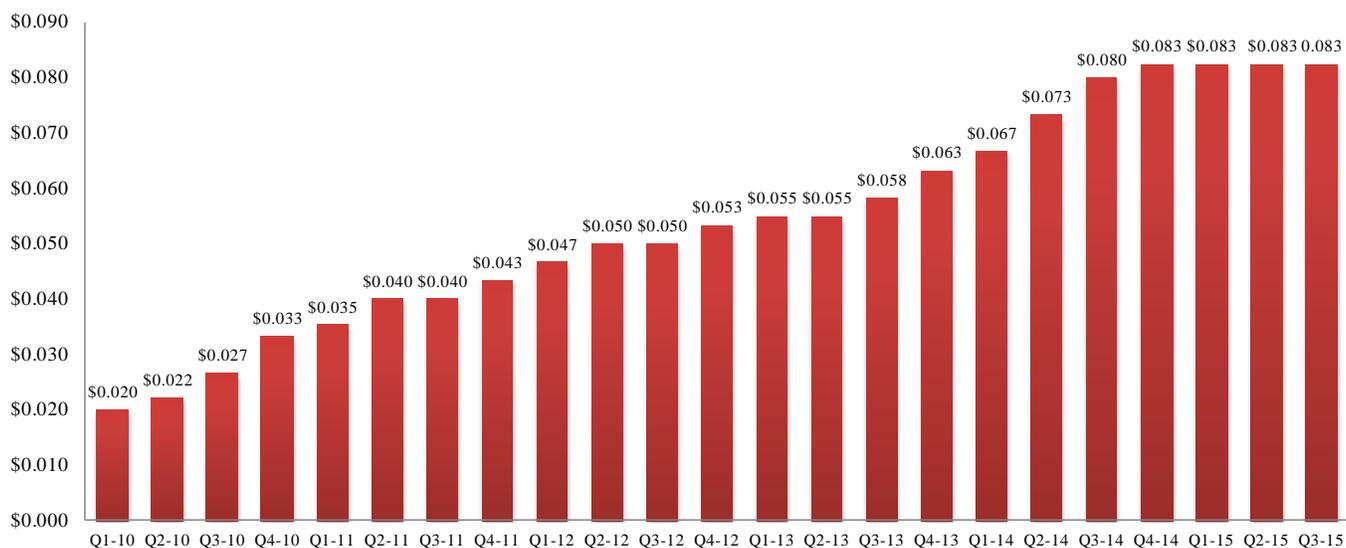
Two complementary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. EQUAL is CES' transport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

Led by JACAM's state of the art laboratory in Sterling, Kansas, CES operates four separate lab facilities across North America which also includes Houston, Texas; Carlyle, Saskatchewan; and Calgary, Alberta. In 2015 CES significantly expanded its laboratory capabilities in Calgary with the opening of a new laboratory. In 2016, to address the needs of its expanding US based production and specialty chemical business CES will also open a new laboratory in Midland, Texas and a second laboratory in Houston, Texas. CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas with additional chemical blending capabilities in Sonora, Texas and its Canadian chemical blending facilities are located in Carlyle, Saskatchewan and Nisku, Alberta. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

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

From the period of January 1, 2010, to September 30, 2015, the Company has increased its monthly dividend eleven times from \$0.0067 per share to \$0.0275 per share, which is 4.1 times greater on a per share basis. Following the 2013 JACAM Acquisition and with the organic growth of the PureChem business in Canada, the Company has diversified its revenue stream and built a revenue and cash flow base in longer term, more predictable production and midstream markets. The increase in both scale and diversity of the Company's operations has resulted in greater certainty of future cash flows from its businesses, thereby over the long term positioning CES to provide a more reliable dividend stream to investors. However, CES will be protective of its balance sheet and be prudent with its cash dividend going forward, particularly if the current low oil price environment continues.

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



#### Notes:

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

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### NON-GAAP MEASURES

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

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,	2014	September 30,	2014
Net income	<b>6,457</b>	20,937	<b>22,126</b>	48,888
Add back (deduct):				
Depreciation on property and equipment in cost of sales	<b>8,059</b>	6,136	<b>23,253</b>	16,750
Depreciation on property and equipment in G&A	<b>894</b>	910	<b>2,531</b>	2,275
Amortization on intangible assets in G&A	<b>4,953</b>	3,516	<b>14,456</b>	9,525
Interest expense, net of interest income	<b>5,620</b>	5,824	<b>17,652</b>	15,778
Amortization of capitalized deferred financing costs	<b>331</b>	635	<b>994</b>	1,138
Current income tax (recovery) expense	<b>(6,417)</b>	11,025	<b>(8,143)</b>	15,691
Deferred income tax expense (recovery)	<b>4,469</b>	(910)	<b>6,969</b>	3,656
Stock-based compensation	<b>7,309</b>	6,222	<b>18,983</b>	15,969
Unrealized foreign exchange loss	<b>95</b>	201	<b>5</b>	345
Unrealized derivative (gain) loss	<b>(1,567)</b>	407	<b>(1,833)</b>	116
Loss (gain) on disposal of assets	<b>170</b>	(198)	<b>(138)</b>	(520)
Other income	<b>(5,812)</b>	-	<b>(11,628)</b>	-
EBITDAC	<b>24,561</b>	54,705	<b>85,227</b>	129,611

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

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

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

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

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

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

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

### **OPERATIONAL DEFINITIONS**

Operational terms used throughout this MD&A include:

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

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

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

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

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

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### FINANCIAL HIGHLIGHTS

Summary Financial Results (\$000's, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Revenue	<b>187,757</b>	272,938	(31%)	<b>584,656</b>	694,033	(16%)
Gross margin	<b>41,258</b>	77,916	(47%)	<b>134,753</b>	190,627	(29%)
as a percentage of revenue	<b>22%</b>	29%		<b>23%</b>	27%	
Cash Gross Margin <sup>(1)</sup>	<b>49,487</b>	83,854	(41%)	<b>157,868</b>	206,857	(24%)
as a percentage of revenue	<b>26%</b>	31%		<b>27%</b>	30%	
Income before taxes	<b>4,505</b>	31,183	(86%)	<b>21,192</b>	68,366	(69%)
per share – basic <sup>(2)</sup>	<b>0.02</b>	0.15	(87%)	<b>0.10</b>	0.33	(70%)
per share - diluted <sup>(2)</sup>	<b>0.02</b>	0.14	(86%)	<b>0.09</b>	0.32	(72%)
Net income <sup>(3)</sup>	<b>6,457</b>	20,937	(69%)	<b>22,126</b>	48,888	(55%)
per share – basic <sup>(2)</sup>	<b>0.03</b>	0.10	(70%)	<b>0.10</b>	0.24	(58%)
per share - diluted <sup>(2)</sup>	<b>0.03</b>	0.09	(67%)	<b>0.10</b>	0.23	(57%)
EBITDAC <sup>(1)</sup>	<b>24,561</b>	54,705	(55%)	<b>85,227</b>	129,611	(34%)
per share – basic <sup>(2)</sup>	<b>0.11</b>	0.26	(58%)	<b>0.39</b>	0.63	(38%)
per share - diluted <sup>(2)</sup>	<b>0.11</b>	0.25	(56%)	<b>0.38</b>	0.60	(37%)
Funds Flow From Operations <sup>(1)</sup>	<b>25,375</b>	37,862	(33%)	<b>76,004</b>	98,152	(23%)
per share – basic <sup>(2)</sup>	<b>0.12</b>	0.18	(33%)	<b>0.35</b>	0.48	(27%)
per share - diluted <sup>(2)</sup>	<b>0.11</b>	0.17	(35%)	<b>0.34</b>	0.46	(26%)
Dividends declared	<b>18,025</b>	17,056	6%	<b>53,822</b>	45,479	18%
per share <sup>(2)</sup>	<b>0.0825</b>	0.0800	3%	<b>0.2475</b>	0.2200	13%

#### Notes:

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

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

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

### OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

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

- CES generated revenue of \$187.8 million during the three months ended September 30, 2015, compared to \$272.9 million for the three months ended September 30, 2014, a decrease of \$85.1 million or 31%. Year-to-date, revenue totaled \$584.7 million, compared to \$694.0 million for the nine months ended September 30, 2014, representing a decrease of \$109.3 million or 16% on a year-over-year basis. Revenue for both Q3 and year-to-date was negatively affected by a steep drop-off in drilling activity, and an overall reduction in revenue due to persistent pricing pressure across all business units in the current low commodity price environment. Offsetting these negative factors was the year-over-year growth of the JACAM and PureChem business units and the positive translation effect on US source revenue due to the devaluation of the Canadian Dollar ("CAD") versus the US Dollar ("USD").
- Revenue generated in the US for the three months ended September 30, 2015 was \$120.5 million compared to \$159.3 million for the three months ended September 30, 2014, a decrease of \$38.8 million or 24%. Although JACAM's activity at the pump-jack and wellhead rose in Q3 2015 in comparison to Q3 2014, this growth was offset by a decline in frack related chemical sales, and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs. US revenues in the quarter were also negatively impacted by lower activity levels and an increasingly difficult pricing environment for the drilling fluids business. For the nine month period ended September 30, 2015, US revenues were \$405.0 million compared to \$421.2 million for the same period in 2014, representing a decrease of \$16.2 million, or 4%. The year-to-date revenue numbers were down primarily as a result of the increasingly unfavorable pricing

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environment and the rapid decline in drilling fluids activity, which offset the growth experienced at JACAM. For both the three and nine months ended September 30, 2015, the Company's US revenues were also positively impacted on translation by weakness in CAD versus USD over the comparable periods in 2014.

- Revenue generated in Canada for the three months ended September 30, 2015 was \$67.2 million compared to \$113.6 million for the three months ended September 30, 2014, a decrease of \$46.4 million or 41%. PureChem continued to gain market share in Canada during the quarter, however these gains were offset by price discounting and weaker frack related chemical sales. Drilling fluids experienced a weak recovery out of spring break-up and has remained under significant pricing pressure in this low commodity price environment. For the nine month period ended September 30, 2015, revenue in Canada was \$179.7 million compared to \$272.8 million in the same period in 2014, representing a decline of \$93.1 million or 34%. Year-to-date, revenue was negatively affected by the steep drop-off in drilling activity and continued pricing pressure. Offsetting this was year-over-year growth in production and specialty chemical sales as PureChem continued to grow and take market share in Canada.
- For the three month period ended September 30, 2015, CES recorded Cash Gross Margin of \$49.5 million or 26% of revenue, compared to Cash Gross Margin of \$83.9 million or 31% of revenue generated in the same period last year. Year-to-date, CES recorded Cash Gross Margin of \$157.9 million or 27% of revenue compared to \$206.9 million or 30% of revenue generated in the same period in 2014. The decline in Cash Gross Margin for both periods is a result of the margin compression experienced in both Canada and US. CES responded to falling activity levels at the drill-bit by rationalizing costs and headcount, but these cost reduction initiatives did not completely offset the price compression experienced as a result of the discounting provided to customers across all business units. In addition, the Canadian business' Cash Gross Margin was further negatively impacted by cost inflation of all USD inputs as CAD weakened considerably in the first nine months of 2015. In the current commodity price environment, these higher costs could not be passed on to customers. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.
- EBITDAC for the three months ended September 30, 2015, was \$24.6 million as compared to \$54.7 million for the three months ended September 30, 2014, representing a decrease of \$30.1 million or 55%. CES recorded EBITDAC per share of \$0.11 (\$0.11 diluted) for the three months ended September 30, 2015 versus EBITDAC per share of \$0.26 (\$0.25 diluted) in 2014, a decrease of 58% (56% diluted). EBITDAC for the nine months ended September 30, 2015, was \$85.2 million as compared to \$129.6 million for the nine months ended September 30, 2014, representing a decrease of \$44.4 million or 34%. CES recorded EBITDAC per share of \$0.39 (\$0.38 diluted) for the nine months ended September 30, 2015 versus EBITDAC per share of \$0.63 (\$0.60 diluted) in 2014, a decrease of 38% (37% diluted). Year over year, the Company's EBITDAC is negatively impacted by the factors discussed above.
- During the three months ended September 30, 2015, the Company recorded other income of \$5.8 million related to a recovery of deferred consideration payable. Year-to-date, other income totalled \$11.6 million. For both periods, this recovery is with respect to the Venture Mud acquisition completed in July 2013.
- CES recorded net income of \$6.5 million for the three month period ended September 30, 2015 as compared to \$20.9 million in the prior year. CES recorded net income per share of \$0.03 (\$0.03 diluted) for the three months ended September 30, 2015 versus \$0.10 (\$0.09 diluted) in 2014. For the year-to-date period, CES recorded net income of \$22.1 million compared to \$48.9 million in 2014. CES recorded net income per share of \$0.10 (\$0.10 diluted) for the nine months ended September 30, 2015 versus \$0.24 (\$0.23 diluted) in 2014. The respective year-over-year decrease in net income resulted from the factors discussed above, and was further impacted by higher stock-based compensation expense and depreciation and amortization. These increased costs were offset by \$5.8 million in other income for the three months ended September 30, 2015, and \$11.6 million for the nine months ended September 30, 2015 related to the recovery of deferred consideration payable.
- Despite the challenges noted above, CES' consumables chemical business model has responded as expected in the activity slow-down with significant conversion of working capital into cash. As at September 30, 2015, the Company had a cash balance of \$21.2 million. Further, on September 30, 2015, the Company completed an amendment to its existing Senior Facility ("Amended Senior Facility") which extended the term to maturity by one year to September 28, 2018. The Company had a draw of \$nil on the Amended Senior Facility at September 30, 2015 (December 31, 2014 – \$60.9 million, net of capitalized transaction costs of \$0.7 million). The maximum available draw on the Amended Senior Facility at September 30, 2015, was \$200.0 million (December 31, 2014 - \$200.0 million). Further discussion on the Amended Senior Facility is included in the Liquidity and Capital Resources section of this document.

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- CES continues to maintain a strong statement of financial position or “balance sheet” with positive net working capital of \$261.1 million as at September 30, 2015 (December 31, 2014 – \$307.1 million).
- During the third quarter of 2015, CES declared monthly dividends totalling \$0.0825 per share. This compares to \$0.080 per share for the same period in 2014. During the third quarter of 2015, the Company's Payout Ratio averaged 75% as compared to 49% in Q3 2014. Year-to-date, the Company's Payout Ratio averaged 73% as compared to 49% in 2014.

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### RESULTS FOR THE PERIODS

(\$000's, except per share amounts)	Three Months Ended September 30,			
	2015	2014	\$ Change	% Change
Revenue	187,757	272,938	(85,181)	(31%)
Cost of sales	146,499	195,022	(48,523)	(25%)
Gross margin	41,258	77,916	(36,658)	(47%)
Gross margin percentage of revenue	22%	29%		
General and administrative expenses	38,593	40,119	(1,526)	(4%)
Finance costs	3,972	6,614	(2,642)	(40%)
Other income	(5,812)	-	(5,812)	(100%)
Income before taxes	4,505	31,183	(26,678)	(86%)
Current income tax (recovery) expense	(6,417)	11,025	(17,442)	(158%)
Deferred income tax expense (recovery)	4,469	(910)	5,379	(591%)
Net income	6,453	21,068	(14,615)	(69%)
Less: net (loss) income attributable to non-controlling interest	(4)	131	(135)	(103%)
Net income attributable to shareholders of the Company	6,457	20,937	(14,480)	(69%)
Net income per share – basic <sup>(1)</sup>	0.03	0.10	(0.07)	(70%)
Net income per share – diluted <sup>(1)</sup>	0.03	0.09	(0.06)	(67%)
EBITDAC <sup>(2)</sup>	24,561	54,705	(30,144)	(55%)

Common Shares Outstanding	2015	2014	% Change
End of period <sup>(1)</sup>	219,168,309	214,157,240	2%
Weighted average			
- basic <sup>(1)</sup>	218,237,459	212,194,898	3%
- diluted <sup>(1)</sup>	224,545,092	220,449,815	2%

Financial Position (\$000's)	As at		% Change
	September 30, 2015	December 31, 2014	
Net working capital	261,077	307,081	(15%)
Total assets	1,065,485	1,088,080	(2%)
Long-term financial liabilities <sup>(3)</sup>	309,311	378,662	(18%)
Shareholders' equity <sup>(4)</sup>	626,387	540,037	16%

#### Notes:

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

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

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

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

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2015

(\$000's, except per share amounts)	Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change
Revenue	<b>584,656</b>	694,033	(109,377)	(16%)
Cost of sales	<b>449,903</b>	503,406	(53,503)	(11%)
Gross margin	<b>134,753</b>	190,627	(55,874)	(29%)
Gross margin percentage of revenue	<b>23%</b>	27%		
General and administrative expenses	<b>110,568</b>	105,023	5,545	5%
Finance costs	<b>14,621</b>	17,238	(2,617)	(15%)
Other income	<b>(11,628)</b>	-	(11,628)	(100%)
Income before taxes	<b>21,192</b>	68,366	(47,174)	(69%)
Current income tax (recovery) expense	<b>(8,143)</b>	15,691	(23,834)	(152%)
Deferred income tax expense	<b>6,969</b>	3,656	3,313	91%
Net income	<b>22,366</b>	49,019	(26,653)	(54%)
Less: net income attributable to non-controlling interest	<b>240</b>	131	109	83%
Net income attributable to shareholders of the Company	<b>22,126</b>	48,888	(26,762)	(55%)
Net income per share – basic <sup>(1)</sup>	<b>0.10</b>	0.24	(0.14)	(58%)
Net income per share – diluted <sup>(1)</sup>	<b>0.10</b>	0.23	(0.13)	(57%)
EBITDAC <sup>(2)</sup>	<b>85,227</b>	129,611	(44,384)	(34%)
<i>Common Shares Outstanding</i>	<b>2015</b>	2014		% Change
End of period <sup>(1)</sup>	<b>219,168,309</b>	214,157,240		2%
Weighted average				
- basic <sup>(1)</sup>	<b>217,278,371</b>	205,938,807		6%
- diluted <sup>(1)</sup>	<b>223,194,480</b>	214,506,925		4%

#### Notes:

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

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

#### Revenue and Operating Activities

CES generated revenue of \$187.8 million during the three months ended September 30, 2015, compared to \$272.9 million for the three months ended September 30, 2014, a decrease of \$85.1 million or 31%. Year-to-date, revenue totaled \$584.7 million, compared to \$694.0 million for the nine months ended September 30, 2014, representing a decrease of \$109.3 million or 16% on a year-over-year basis.

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

\$000's	Revenue			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Canada	<b>67,229</b>	113,633	<b>179,661</b>	272,785
United States	<b>120,528</b>	159,305	<b>404,995</b>	421,248
Total	<b>187,757</b>	272,938	<b>584,656</b>	694,033

Revenue generated in Canada for the three months ended September 30, 2015 decreased by \$46.4 million or 41% compared to the three months ended September 30, 2014, from \$113.6 million to \$67.2 million. For the nine month period ended September 30, 2015, revenue in Canada was \$179.7 million compared to \$272.8 million in the same period in 2014, representing a decline of \$93.1 million or 34%. PureChem has continued to gain market share in Canada in production chemicals, however these gains have been offset by price discounting and weaker frack related chemical sales. In line with industry metrics, CES' drilling fluids business experienced a weak recovery out of spring break-up and has remained under significant pricing pressure in this low

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commodity price environment. As further outlined in the table below, industry rig counts were down 51% from Q3 2014 to Q3 2015 and down 48% from the nine months ended September 30, 2014 compared to the same period in 2015. Correspondingly, the Company saw a 52% decline in Canadian Operating Days from Q3 2014 to Q3 2015 and a decline of 47% for the year-to-date comparative period. Despite the fall in drilling activity, the Company maintained its Canadian Market share at 36% in Q3 2015 and 34% year-to-date, compared to 36% in Q3 2014 and 33% for the nine months ended September 30, 2014. CES expects to maintain its leading market share but future Canadian Market Share will continue to fluctuate with the rapidly changing rig count environment that is being driven by volatility in our customers' risk appetite and spending levels.

Included in revenue generated in Canada for the three and nine months ended September 30, 2015, is \$1.3 million and \$5.5 million, respectively (2014 – \$4.6 million and \$14.2 million, respectively) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business is levered to drilling activity and as a result, also experienced a year-over-year drop in revenue which has been exacerbated as operators have cut back on all non-core spending. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

Revenue generated in the US for the three months ended September 30, 2015, decreased by \$38.8 million or 24% compared to the three months ended September 30, 2014, from \$159.3 million to \$120.5 million. Third quarter revenues in the US were negatively affected by reduced industry rig counts and increased pricing pressure from customers. During Q3 2015, customers continued to pull back on spending and activity in response to lower commodity prices. US average industry rig count declined 55% from 1,842 in Q3 2014 to 833 in Q3 2015 and US Operating Days were down 43% for the comparable periods. Despite the fall in industry activity and US Operating Days, the Company's US Market Share was 10.5% during the three months ended September 30, 2015, an increase from 8% in the comparable period in 2014. Although JACAM's activity at the pump-jack and wellhead rose in Q3 2015 in comparison to Q3 2014, this growth was offset by a decline in frack related chemical sales, and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs.

For the nine month period ended September 30, 2015, US revenues were \$405.0 million compared to \$421.2 million for the same period in 2014, representing a decrease of \$16.2 million, or 4%. The year-to-date revenue numbers were down primarily as a result of the steep decline in drilling activity in 2015 and price discounting across all US operations.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Canadian industry rig count <sup>(1)</sup>	<b>183</b>	377	(51%)	<b>190</b>	365	(48%)
US industry rig count <sup>(2)</sup>	<b>833</b>	1,842	(55%)	<b>1,014</b>	1,794	(44%)

**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,		
	2015	2014	% Change	2015	2014	% Change
Canada	<b>6,050</b>	12,680	(52%)	<b>17,490</b>	33,179	(47%)
US	<b>8,025</b>	14,086	(43%)	<b>27,561</b>	40,176	(31%)
Total Operating Days <sup>(1)</sup>	<b>14,075</b>	26,766	(47%)	<b>45,051</b>	73,355	(39%)

**Notes:**

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Top five customers as a % of total revenue	29%	26%	30%	25%
Top customer as a % of total revenue	12%	10%	15%	15%

### Cost of Sales and Gross Margin

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

For the three month period ended September 30, 2015, CES recorded gross margin of \$41.3 million or 22% of revenue, compared to gross margin of \$77.9 million or 29% of revenue generated in the same period last year. Year-to-date, CES recorded gross margin of \$134.8 million, or 23% of revenue, compared to \$190.6 million or 27% of revenue for the same period in 2014. For both comparative periods, the decline in gross margin is largely as a result of the margin compression experienced in both Canada and the US and is further emphasized by higher depreciation expense. The year-over-year increase in depreciation expense is primarily attributable to the Company's growing asset base. Depreciation expense recorded in the US was also negatively impacted on translation by weakness in CAD throughout 2015.

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Gross margin	41,258	77,916	134,753	190,627
as a percentage of revenue	22%	29%	23%	27%
Add back (deduct):				
Depreciation included in cost of sales	8,059	6,136	23,253	16,750
Loss (gain) on disposal of assets included in cost of sales	170	(198)	(138)	(520)
Cash Gross Margin <sup>(1)</sup>	49,487	83,854	157,868	206,857
as a percentage of revenue	26%	31%	27%	30%

#### Notes:

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

For the three month period ended September 30, 2015, CES recorded Cash Gross Margin of \$49.5 million or 26% of revenue, compared to Cash Gross Margin of \$83.9 million or 31% of revenue generated in the same period last year. For the year-to-date period ended September 30, 2015, CES recorded Cash Gross Margin of \$157.9 million, or 27% of revenue, compared to Cash Gross Margin of \$206.9 million or 30% of revenue in 2014. The decline in Cash Gross Margin is a result of the margin compression experienced in both Canada and US in the quarter. Beginning in the first quarter of 2015, CES responded to changes in drilling activity levels by rationalizing costs and headcount, however these cost reduction initiatives did not fully offset the price compression experienced from the discounting applied across all business units. In addition, the Canadian business' gross margin was negatively impacted by a protracted spring break-up with a weak recovery and by cost inflation of all USD denominated inputs as CAD has weakened considerably in 2015. In the current commodity price environment, these higher

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costs could not be passed on to the customer. Year over year, the growth in the Company's production and specialty chemicals business has also mitigated the decline in gross margin as this business achieves higher margins than the Company's drilling related products and services. The Company expects pricing pressure and margin compression to continue in this low commodity price environment as customers continue to focus on cash costs.

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

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
General and administrative expenses	<b>38,593</b>	40,119	<b>110,568</b>	105,023
as a percentage of revenue	<b>21%</b>	15%	<b>19%</b>	15%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	<b>7,309</b>	6,222	<b>18,983</b>	15,969
Depreciation & amortization	<b>5,847</b>	4,426	<b>16,987</b>	11,800
Cash General and Administrative Costs <sup>(1)</sup>	<b>25,437</b>	29,471	<b>74,598</b>	77,254
as a percentage of revenue	<b>14%</b>	11%	<b>13%</b>	11%

#### Notes:

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

For the three month period ended September 30, 2015, CES recorded Cash General and Administrative Costs of \$25.4 million or 14% of revenue, compared to Cash General and Administrative Costs of \$29.5 million or 11% of revenue generated in the same period last year. Year-to-date, CES recorded Cash General and Administrative Costs of \$74.6 million or 13% of revenue, compared to \$77.3 million or 11% of revenue in the same period in 2014. Beginning in the first quarter of 2015, the Company took necessary actions to reduce its G&A cost base in the current environment. These cost reduction measures included reduced headcounts, reduced compensation levels and reductions in discretionary spending. The reduction in Cash General and Administrative Costs as a result of these cost cutting measures was offset in the quarter by increased costs related to the growing production and specialty chemical businesses in both Canada and the US, for which Cash General and Administrative costs have increased in line with revenues. Finally, for both the three and nine month periods ending September 30, 2015, US source G&A was negatively impacted on translation by weakness in CAD versus USD. CES will continue to diligently manage its Cash General and Administrative Costs in light of current market conditions.

### Depreciation and Amortization

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	<b>8,059</b>	6,136	<b>23,253</b>	16,750
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	<b>4,953</b>	3,516	<b>14,456</b>	9,525
Depreciation expense on property and equipment	<b>894</b>	910	<b>2,531</b>	2,275
	<b>5,847</b>	4,426	<b>16,987</b>	11,800
Total depreciation and amortization expense	<b>13,906</b>	10,562	<b>40,240</b>	28,550

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Depreciation of property and equipment and amortization of intangible assets totalled \$13.9 million for the three month period ended September 30, 2015, as compared to \$10.6 million for the same period in 2014. For the three months ended September 30, 2015, \$8.1 million (Q3 2014 – \$6.1 million) of depreciation of property and equipment was included in cost of sales and \$5.8 million (Q3 2014 – \$4.4 million) of depreciation and amortization was included in G&A, of which \$4.9 million related to amortization of intangible assets (Q3 2014 – \$3.5 million). For the year-to-date period ending September 30, 2015, depreciation of property and equipment and amortization of intangible assets totalled \$40.2 million, as compared to \$28.6 million for the same period in 2014. Of this amount, \$23.3 million (2014 - \$16.8 million) was included in cost of sales and \$17.0 million (2014 - \$11.8 million) was included in G&A, of which \$14.5 million related to amortization of intangible assets (2014 - \$9.5 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 its operations in Canada and the US as well as the amortization of the Company's intangible assets associated with the acquisitions completed in the second half of 2014. Depreciation recorded in the US was also negatively impacted on translation by weakness in CAD versus USD in 2015.

### Finance Costs

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Foreign exchange (gain) loss	(294)	(336)	(756)	(116)
Financial derivative (gain) loss	(1,685)	491	(3,269)	438
Amortization of debt issue costs and premium	331	635	994	1,138
Interest on debt, net of interest income	5,620	5,824	17,652	15,778
Finance costs	3,972	6,614	14,621	17,238

Finance costs were \$4.0 million for the three months ended September 30, 2015, as compared to \$6.6 million during the same period in 2014. Year-to-date, CES incurred finance costs of \$14.6 million, as compared to \$17.2 million during 2014. The change in finance costs year-over-year is outlined below.

### Interest expense

During the three and nine months ended September 30, 2015, interest expense included in finance costs consists of interest expense on vehicle financing loans, capitalized lease facilities, the Amended Senior Facility, and the Senior Notes. Amortization of capitalized deferred financing costs on both the Senior Notes and the 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.

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Total interest expense, net of interest income	5,951	6,459	18,646	16,916
Deduct non-cash interest expense:				
Amortization of debt issue costs and premium	331	635	994	1,138
Cash Interest Expense <sup>(1)</sup>	5,620	5,824	17,652	15,778

### Notes:

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

The Cash Interest Expense component of finance costs was \$5.6 million for the three months ended September 30, 2015, compared to \$5.8 million in the third quarter of 2014. Interest expense has decreased from Q3 2014 to Q3 2015 as the Company had a net draw of \$nil on the Amended Senior Facility throughout the third quarter and therefore incurred minimal interest expense on this facility, largely in the form of standby fees. For the nine months ended September 30, 2015, the Company recorded interest expense of \$17.7 million as compared to \$15.8 million in the same period in 2014. The year-over-year increase is primarily as a result of additional interest expense on the \$75.0 million in Senior Notes issued in July 2014. Total interest expense relating to the Company's Senior Notes during the three and nine months ended September 30, 2015 is \$5.4 million and

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\$16.0 million, respectively, as compared to \$5.4 million and \$13.6 million in the respective 2014 periods.

### *Foreign exchange gains and losses*

Finance costs for the three and nine months ended September 30, 2015 include a net foreign exchange gain of \$0.3 million and \$0.8 million, respectively (2014 – \$0.3 million and \$0.1 million, respectively), primarily related to foreign exchange gains on the Company's USD denominated receivables and cash balances in Canada.

### *Derivative gains and losses*

Finance costs for the three months ended September 30, 2015, include net derivative gains of \$1.7 million (2014 – losses of \$0.5 million), relating to the Company's foreign currency derivative contracts. For the nine month period ended September 30, 2015, finance costs included net derivative gains of \$3.3 million, compared to losses of \$0.4 million in 2014. As of September 30, 2015, the Company had a financial derivative asset of net \$1.7 million and a financial derivative liability of \$0.4 million relating to its outstanding derivative contracts (December 31, 2014 – net liability of \$0.6 million).

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

<b>Period</b>	<b>Notional Balance USD\$000's</b>	<b>Contract Type</b>	<b>Settlement</b>	<b>Average USDCAD Exchange Rate</b>
October 2015	\$2,013	Deliverable Forward	Physical Purchase	\$1.2159
November 2015	\$1,713	Deliverable Forward	Physical Purchase	\$1.2177
December 2015	\$1,614	Deliverable Forward	Physical Purchase	\$1.2191
January 2016	\$2,413	Deliverable Forward	Physical Purchase	\$1.2456
February 2016	\$2,013	Deliverable Forward	Physical Purchase	\$1.2459
March 2016	\$2,014	Deliverable Forward	Physical Purchase	\$1.2571
April 2016	\$2,000	Deliverable Forward	Physical Purchase	\$1.2482
May 2016	\$2,000	Deliverable Forward	Physical Purchase	\$1.2500
<b>Total</b>	<b>\$15,780</b>			<b>\$1.2385</b>

<b>Period</b>	<b>Notional Call USD\$000's</b>	<b>Notional Put USD\$000's</b>	<b>Settlement</b>	<b>Average USDCAD Exchange Rate</b>
October 2015	\$825	\$1,650	Physical Purchase	\$1.3005
November 2015	\$825	\$1,650	Physical Purchase	\$1.3005
December 2015	\$825	\$1,650	Physical Purchase	\$1.3005
January 2016	\$825	\$1,650	Physical Purchase	\$1.3005
February 2016	\$825	\$1,650	Physical Purchase	\$1.3005
March 2016	\$825	\$1,650	Physical Purchase	\$1.3005
April 2016	\$825	\$1,650	Physical Purchase	\$1.3005
May 2016	\$825	\$1,650	Physical Purchase	\$1.3005
June 2016	\$2,825	\$5,650	Physical Purchase	\$1.2868
July 2016	\$2,825	\$5,650	Physical Purchase	\$1.2868
August 2016	\$2,825	\$5,650	Physical Purchase	\$1.2868
September 2016	\$2,000	\$4,000	Physical Purchase	\$1.3040
<b>Total</b>	<b>\$17,075</b>	<b>\$34,150</b>		<b>\$1.2941</b>

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

Period	Notional Balance USD\$000's	Contract Type	Settlement	Average USDCAD Exchange Rate
October 2015	\$1,250	Deliverable Forward	Physical Sale	\$1.1446
November 2015	\$600	Deliverable Forward	Physical Sale	\$1.1688
December 2015	\$600	Deliverable Forward	Physical Sale	\$1.1693
Total	\$2,450			\$1.1566

In addition to the contracts noted above, the Company had also entered into zero-cost collars with the option to sell US\$0.6 million on a monthly basis from November 2015 to September 2016, with USDCAD strike prices ranging from \$1.0770 to \$1.2260 and participation rates ranging from \$1.3500 to \$1.4000.

### *Other Income*

During the three months ended September 30, 2015, the Company recorded other income of \$5.8 million related to a recovery of deferred consideration payable. Year to date, other income totalled \$11.6 million. For both periods, this recovery is with respect to the Venture Mud acquisition completed in July 2013. Based on financial metrics, the Company reversed a portion of the remaining amount accrued for this earn out.

### *Current and Deferred Income Taxes*

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

\$000's	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Current income tax (recovery) expense	(6,417)	11,025	(8,143)	15,691
Deferred income tax expense (recovery)	4,469	(910)	6,969	3,656
Total income tax (recovery) expense	(1,948)	10,115	(1,174)	19,347

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. During the three and nine months ended September 30, 2015, the Company recorded an income tax recovery of \$1.9 million and \$1.2 million, respectively, as compared to an expense of \$10.1 million and \$19.3 million in 2014. The year-over-year decrease in current income tax expense is primarily related to decreased operating income in 2015, partially offset by realized foreign exchange gains and an increase in tax rates. The year-over-year increase in deferred income tax expense is primarily due to a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

### *Net Working Capital*

Despite the challenges of the current low commodity price environment on revenues and earnings, CES' consumables chemical business model has responded as expected in the activity slow-down with significant conversion of working capital into cash. At September 30, 2015, the Company had a cash balance of \$21.2 million and a draw of \$nil on the Amended Senior Facility (December 31, 2014 – \$nil cash balance and a net draw of \$60.9 million, net of capitalized transaction costs of \$0.7 million). CES continued to maintain a strong statement of financial position or "balance sheet" as at September 30, 2015, with positive net working capital of \$261.1 million (December 31, 2014 - \$307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the year-to-date period ended September 30, 2015 and is comprised

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primarily of a \$105.5 million reduction in accounts receivable, a \$13.2 million reduction in prepaid expenses and an \$11.5 million reduction in inventory. These decreases to working capital are partially offset by a \$40.5 million reduction in accounts payable, a \$21.2 million increase in cash, a \$10.4 million decline in deferred acquisition consideration payable and a \$10.4 million increase in income taxes receivable. It should be noted that in light of current market conditions, CES has placed trade credit insurance over its 2015 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature.

### **Total Current Assets**

Total current assets of CES decreased from \$445.1 million at December 31, 2014 to \$348.2 million at September 30, 2015. The decrease is primarily due to a reduction in accounts receivable by \$105.5 million, a reduction in prepaid expenses by \$13.2 million, and a decrease inventory by \$11.5 million, offset by an increase in cash of \$21.2 million and an increase to income taxes receivable of \$10.4 million.

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

Year-over-year, total long-term assets of CES increased by \$74.3 million to \$717.3 million at September 30, 2015 from \$643.0 million at December 31, 2014. The increase is primarily attributable to the increase in USD denominated long-term assets on translation as a result of the weakening CAD, as well as an increase in property and equipment of \$10.7 million (net of amortization).

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

CES had long-term debt totalling \$298.5 million at September 30, 2015, compared to \$360.0 million at December 31, 2014, a decrease of \$61.5 million. The year-over-year decrease in long-term debt is primarily as a result of the Company repaying 100% of the Company's draw on the Amended Senior Facility during the year-to-date period.

At September 30, 2015, the Company had \$300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2014 - \$300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17<sup>th</sup> and October 17<sup>th</sup>. The Senior Notes 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.

Additional discussion relating to the Company's Amended Senior Facility and Senior Notes is included in the Liquidity and Capital Resources section of this MD&A.

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

\$000's	As at	
	September 30, 2015	December 31, 2014
Amended Senior Facility	-	61,585
Senior Notes	300,000	300,000
Vehicle financing loan	-	628
Equipment financing loans	-	405
	300,000	362,618
Less net unamortized debt issue costs	(4,906)	(5,653)
Less net unamortized debt premium	3,388	3,943
Less current portion of long-term debt	-	(884)
Long-term debt	298,482	360,024

## Canadian Energy Services & Technology Corp.

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At September 30, 2015, the Company had finance lease liabilities of \$14.2 million, net of the current portion of \$7.2 million, representing a total decrease of \$0.5 million from December 31, 2014. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

<i>\$000's</i>	
Less than 1 year	<b>2,376</b>
1-5 years	<b>12,449</b>
5+ years	<b>357</b>
Total lease payments	<b>15,182</b>
Amount representing implicit interest	<b>(957)</b>
Finance lease obligations	<b>14,225</b>
Less: current portion of finance lease obligations	<b>(7,196)</b>
Long-term finance lease obligations	<b>7,029</b>

During the three and nine months ended September 30, 2015, the Company made long-term scheduled debt and lease repayments totalling \$2.1 million and \$7.0 million, respectively, on its finance leases, vehicle debt, and credit facilities.

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

Shareholders' equity increased from \$540.0 million at December 31, 2014 to \$626.5 million at September 30, 2015. The increase in shareholders' equity is primarily attributable to a \$95.7 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries, \$22.1 million in net income attributable to shareholders of the Company, \$19.8 million relating to the issuance of equity under the Company's stock-based compensation plans, \$19.0 million in contributed surplus related to stock-based compensation expense, offset by \$53.8 million of dividends declared by the Company during the period and \$16.5 million reclassified from contributed surplus for stock-based compensation plans.

## Canadian Energy Services & Technology Corp.

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### QUARTERLY FINANCIAL SUMMARY

(\$000's, except per share amounts)	Three Months Ended			
	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
Revenue	<b>187,757</b>	163,137	233,762	278,672
Gross margin	<b>41,258</b>	36,264	57,231	74,864
Net income <sup>(1)</sup>	<b>6,457</b>	1,758	13,911	18,816
<i>per share— basic</i> <sup>(2)</sup>	<b>0.03</b>	0.01	0.06	0.09
<i>per share— diluted</i> <sup>(2)</sup>	<b>0.03</b>	0.01	0.06	0.08
EBITDAC <sup>(3)</sup>	<b>24,561</b>	19,610	41,057	47,562
<i>per share— basic</i> <sup>(2)</sup>	<b>0.11</b>	0.09	0.19	0.22
<i>per share— diluted</i> <sup>(2)</sup>	<b>0.11</b>	0.09	0.19	0.21
Funds Flow From Operations <sup>(3)</sup>	<b>25,375</b>	15,865	34,764	46,810
<i>per share— basic</i> <sup>(2)</sup>	<b>0.12</b>	0.07	0.16	0.22
<i>per share— diluted</i> <sup>(2)</sup>	<b>0.11</b>	0.07	0.16	0.21
Dividends declared	<b>18,025</b>	17,949	17,848	17,745
<i>per share</i> <sup>(2)</sup>	<b>0.0825</b>	0.0825	0.0825	0.0825
<i>Shares Outstanding</i>				
End of period <sup>(2)</sup>	<b>219,168,309</b>	217,816,380	217,037,911	215,512,074
Weighted average – basic <sup>(2)</sup>	<b>218,237,459</b>	217,442,891	216,131,621	214,875,446
Weighted average – diluted <sup>(2)</sup>	<b>224,545,092</b>	223,738,234	221,250,593	221,469,050

(\$000's, except per share amounts)	Three Months Ended			
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013
Revenue	272,938	189,785	231,310	200,569
Gross margin	77,916	48,264	64,447	55,060
Net income <sup>(1)</sup>	20,937	8,459	19,492	12,837
<i>per share— basic</i> <sup>(2)</sup>	0.10	0.04	0.10	0.06
<i>per share— diluted</i> <sup>(2)</sup>	0.09	0.04	0.09	0.06
EBITDAC <sup>(3)</sup>	54,705	31,383	43,522	36,482
<i>per share— basic</i> <sup>(2)</sup>	0.26	0.15	0.22	0.18
<i>per share— diluted</i> <sup>(2)</sup>	0.25	0.15	0.21	0.17
Funds Flow From Operations <sup>(3)</sup>	37,862	24,724	35,566	25,006
<i>per share— basic</i> <sup>(2)</sup>	0.18	0.12	0.18	0.12
<i>per share— diluted</i> <sup>(2)</sup>	0.17	0.12	0.17	0.12
Dividends declared	17,056	14,935	13,488	12,730
<i>per share</i> <sup>(2)</sup>	0.0800	0.0730	0.0667	0.0633
<i>Shares Outstanding</i>				
End of period <sup>(2)</sup>	214,157,240	204,008,616	203,260,062	201,321,384
Weighted average – basic <sup>(2)</sup>	212,194,898	203,533,809	201,975,414	200,743,647
Weighted average – diluted <sup>(2)</sup>	220,449,815	212,227,023	210,566,073	208,733,503

**Notes:**

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

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

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

## Canadian Energy Services & Technology Corp.

Management's Discussion and Analysis

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### *Seasonality of Operations*

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

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2015, the Company had net working capital of \$261.1 million (December 31, 2014 - \$307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the year-to-date period ended September 30, 2015 and is comprised primarily of a \$105.5 million reduction in accounts receivable, a \$13.2 million reduction in prepaid expenses and an \$11.5 million reduction in inventory. These decreases to working capital are partially offset by a \$40.5 million reduction in accounts payable, a \$21.2 million increase in cash, a \$10.4 million decline in deferred acquisition consideration payable and a \$10.4 million increase in income taxes receivable.

### *Amended Senior Facility*

On September 30, 2015, the Company completed an amendment to its existing Senior Facility which extended the term to maturity by one year to September 28, 2018. With the exception of the change to the Company's debt covenants outlined below, the terms and conditions of the Amended Senior Facility remain consistent with the previous Senior Facility, allowing the Company to borrow up to \$200.0 million, with the option to borrow an additional \$100.0 million subject to certain terms and conditions. The increase in the maximum Total Net Funded Debt to EBITDA covenant provides the Company with more flexibility at no additional cost. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% 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 Amended Senior Facility has a standby fee ranging from 0.30% to 0.45%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

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

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

- The ratio of Total Net Funded Debt to EBITDA calculated on a rolling four-quarter basis shall not exceed 4.50 to 1.00 (previously 4:00 to 1.00).
- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.50 to 1.00 calculated on a rolling four-quarter basis.
- The quarterly ratio of EBITDA to interest expense must be more than 3.00 to 1.00 calculated on a rolling four-quarter basis.

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

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

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

## Canadian Energy Services & Technology Corp.

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### Senior Notes

At September 30, 2015, the Company had \$300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020. The Senior Notes bear interest of 7.375% per annum and contain certain early redemption options which become effective after April 17, 2017, whereby the Company can choose to redeem all or a portion of at various redemption prices, which includes 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<sup>th</sup> and October 17<sup>th</sup>. 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.

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

\$000's	As at	
	September 30, 2015	December 31, 2014
Total Net Funded Debt to EBITDA Ratio (Must be < 4.50:1.00)		
Total Net Funded Debt <sup>(1)</sup>	314,225	377,313
EBITDA for the four quarters ended	132,790	177,172
Ratio	2.37	2.13
Senior Funded Debt to EBITDA Ratio (Must be < 2.50:1.00)		
Senior Funded Debt	14,225	77,313
EBITDA for the four quarters ended	132,790	177,172
Ratio	0.11	0.44
EBITDA to Interest Expense (Must be > 3.00:1.00)		
EBITDA for the four quarters ended	132,790	177,172
Interest Expense for the four quarters ended	23,915	22,133
Ratio	5.55	8.00

### Notes:

<sup>1</sup> Included in Total Net Funded Debt at September 30, 2015 is \$300.0 million of principal on Senior Notes due in April 2020 (December 31, 2014 - \$300.0 million). Excluding these Senior Notes, Senior Funded Debt is \$14.2 million at September 30, 2015 and \$77.3 million at December 31, 2014.

### Other Indebtedness

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

- Bank leasing facilities of which the Company had an outstanding balance owing on these lease facilities of \$0.2 million at September 30, 2015, as compared to \$0.7 million at December 31, 2014. The fixed interest rate leases are for terms ranging to March 2016 with interest on the lease facilities at a weighted average rate of 5.0%.
- Non-bank vehicle and equipment finance leases are secured by each related asset at a weighted average interest rate of approximately 5.45%, and have termination dates ranging from October 2015 through January 2021. At September 30, 2015, outstanding vehicle and equipment finance lease obligations totalled \$14.0 million as compared to \$14.0 million at December 31, 2014.

## Canadian Energy Services & Technology Corp.

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Three and Nine Months Ended September 30, 2015

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

\$000's	Payments Due By Period <sup>(1)</sup>					Total
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	
Accounts payable and accrued liabilities	64,622	-	-	-	-	<b>64,622</b>
Dividends payable <sup>(2)</sup>	6,027	-	-	-	-	<b>6,027</b>
Deferred acquisition consideration	-	8,103	3,800	-	-	<b>11,903</b>
Senior Notes <sup>(4)</sup>	-	-	-	300,000	-	<b>300,000</b>
Interest on Senior Notes	11,063	11,063	22,125	66,374	-	<b>110,625</b>
Finance lease obligations at fixed interest rates <sup>(3)</sup>	66	100	-	-	-	<b>166</b>
Finance lease obligations at floating interest rates <sup>(3)</sup>	1,245	5,785	4,279	2,237	513	<b>14,059</b>
Office operating leases	1,817	4,231	3,537	4,214	-	<b>13,799</b>
<b>Total</b>	<b>84,840</b>	<b>29,282</b>	<b>33,741</b>	<b>372,825</b>	<b>513</b>	<b>521,201</b>

### Notes:

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

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

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

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

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

### Cash Flows from Operating Activities

For the three months ended September 30, 2015, cash flow from operating activities was an inflow of \$9.0 million compared to an outflow of \$8.8 million during the three months ended September, 2014, with the increase being primarily as a result of the change in non-cash working capital.

Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended September 30, 2015, Funds Flow From Operations was \$25.4 million, compared to a \$37.9 million for the three months ended September 30, 2014.

\$000's	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Cash provided by operating activities	<b>8,969</b>	(8,815)	<b>183,504</b>	41,541
Adjust for:				
Change in non-cash operating working capital	<b>16,406</b>	46,677	<b>(107,500)</b>	56,611
<b>Funds Flow From Operations <sup>(1)</sup></b>	<b>25,375</b>	37,862	<b>76,004</b>	98,152

### Notes:

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

### Cash Flows from Investing Activities

For the three months ended September 30, 2015, net cash outflows from investing activities totalled \$21.4 million, representing a decrease from the \$53.1 million outflow from investing activities during the three months ended September 30, 2014. This decrease is largely due to the \$36.6 million that the Company spent in Q3 2014 related to business combinations.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

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For the three months ended September 30, 2015, \$10.1 million was spent on property and equipment (net of \$2.7 million in vehicle financing and leases). During the quarter, CES had \$1.3 million of additions related to Maintenance Capital and \$11.9 million of additions related to Expansion Capital including vehicle financing. Notable expansion additions during the quarter ended September 30, 2015 include: \$3.2 million for warehouse and facilities, \$2.1 million in vehicles, \$2.0 million for machinery and field equipment, \$1.9 million in leasehold improvements, \$1.3 million in trucks and trailers, \$0.6 million in land improvements, and \$0.8 million for other expansion additions.

Expansion Capital expenditures in Q3 2015 were primarily related to the completion of construction of the barite grinding facility in Corpus Christi, Texas; the continued expansion of JACAM facilities; and the construction of new laboratory facilities in Calgary, Alberta and Midland, Texas that will service both the drilling fluids and production and specialty chemicals businesses.

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

\$000's	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Expansion Capital <sup>(1)</sup>	<b>11,940</b>	16,178	<b>38,579</b>	49,189
Maintenance Capital <sup>(1)</sup>	<b>1,279</b>	2,924	<b>2,277</b>	4,986
Total investment in property and equipment	<b>13,219</b>	19,102	<b>40,856</b>	54,175
Asset financing and leases	<b>(2,667)</b>	(4,504)	<b>(4,500)</b>	(10,408)
Capital expenditures	<b>10,552</b>	14,598	<b>36,356</b>	43,767
Change in non-cash investing working capital	<b>(441)</b>	(701)	<b>673</b>	(417)
Cash used for investment in property and equipment	<b>10,111</b>	13,897	<b>37,029</b>	43,350

**Notes:**

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

In general, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2015, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately \$50.0 million, of which an estimated \$5.0 million will be maintenance capital additions, and an estimated \$45.0 million will be for expansion capital additions. The expected expansion capital expenditures will be used to further expand CES' business platform and to further vertically integrate its operations.

#### **Cash Flows from Financing Activities**

For the three month period ended September 30, 2015, cash flows from financing activities totalled a cash outflow of \$18.5 million compared to a cash inflow of \$61.9 million during the comparative prior year period. This year-over-year decrease is primarily due to the proceeds received in Q3 2014 from the Company's Senior Notes issuance and equity Offering.

## Canadian Energy Services & Technology Corp.

### Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2015

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,	
	2015	2014	2015	2014
Cash provided by operating activities	8,969	(8,815)	183,504	41,541
Adjust for:				
Change in non-cash operating working capital	16,406	46,677	(107,500)	56,611
Funds Flow From Operations <sup>(1)</sup>	25,375	37,862	76,004	98,152
less: Maintenance Capital <sup>(2)</sup>	(1,279)	(2,924)	(2,277)	(4,986)
Distributable Earnings <sup>(1)</sup>	24,096	34,938	73,727	93,166
Dividends declared	18,025	17,056	53,822	45,479
Payout Ratio <sup>(1)</sup>	75%	49%	73%	49%

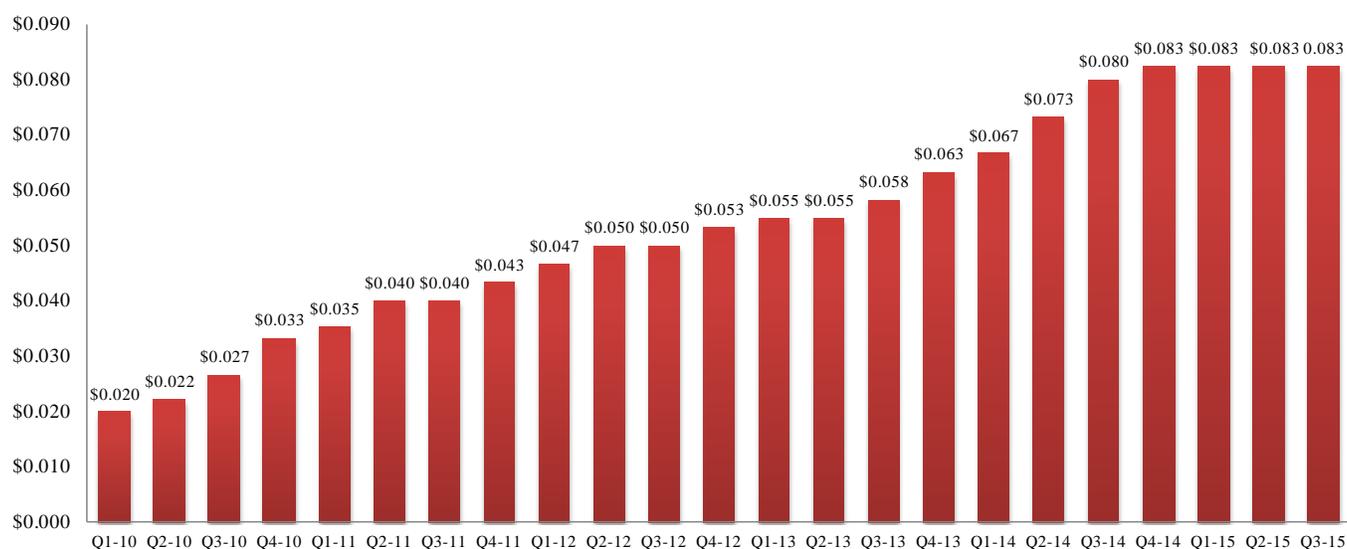
**Notes:**

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

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

Distributable Earnings were \$24.1 million for the three months ended September 30, 2015, compared with \$34.9 million for the same period in 2014. During the three months ended September 30, 2015, CES declared monthly dividends of \$0.0275 per share for a total of \$0.0825 per share for the quarter. During the third quarter of 2015, the Payout Ratio was 75% compared to 49% for the third quarter of 2014. Year-to-date, the Payout Ratio was 73% compared to 49% in 2014.

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



**Notes:**

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

## Canadian Energy Services & Technology Corp.

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Three and Nine Months Ended September 30, 2015

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### **Dividend Policy**

The Company declared dividends to holders of common shares for the nine months ended September 30, 2015, 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 30	Feb 13	\$0.0275	<b>5,939</b>
February	Feb 27	Mar 13	\$0.0275	<b>5,940</b>
March	Mar 31	Apr 15	\$0.0275	<b>5,969</b>
April	Apr 30	May 15	\$0.0275	<b>5,976</b>
May	May 29	Jun 15	\$0.0275	<b>5,983</b>
June	Jun 30	Jul 15	\$0.0275	<b>5,990</b>
July	Jul 31	Aug 14	\$0.0275	<b>5,993</b>
August	Aug 31	Sep 15	\$0.0275	<b>6,005</b>
September	Sep 30	Oct 15	\$0.0275	<b>6,027</b>
Total dividends declared during the period			\$0.2475	<b>53,822</b>

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

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, despite the challenging oil price environment which is negatively impacting activity levels and revenue in the near-term, CES intends to continue to pay cash dividends to shareholders, but these dividends are not guaranteed. In addition, future expansion, investments, and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a 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, 2015, the Company declared dividends to holders of common shares in the amount of \$0.0275 per common share payable on November 13, 2015, for shareholders of record on October 30, 2015.

### **Shareholders' Equity**

As of September 30, 2015, CES had a total of 219,168,309 common shares outstanding. As of the date of this MD&A, CES had a total of 219,269,209 common shares outstanding.

### **Stock-based Compensation**

As at September 30, 2015, a total of 21,916,831 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 5,658,397 common shares remained available for grant.

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

At September 30, a total of 11,255,644 Share Rights were outstanding (December 31, 2014 – 6,344,044) at a weighted average exercise price of \$7.06 (assuming all SRIP's are exercised at their respective original exercise price) of which 2,447,144 were

## Canadian Energy Services & Technology Corp.

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Three and Nine Months Ended September 30, 2015

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exercisable. As of the date of this MD&A, an aggregate of 11,133,744 Share Rights remaining outstanding, of which 2,346,244 are exercisable.

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

At September 30, 2015, a total of 5,002,790 Restricted Share Units were outstanding (December 31, 2014 – 4,093,785) at a weighted average issuance price of \$6.37, none of which were vested. As of the date of this MD&A, an aggregate of 5,021,190 Restricted Share Units remain outstanding, none of which have vested.

### **Commitments**

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

<i>\$000's</i>	<b>2015 - 3 months</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Office and facility rent	1,817	5,249	3,288	2,362	1,083	<b>13,799</b>

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

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

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

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, and the possible disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses for the period.

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

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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

## **CORPORATE GOVERNANCE**

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

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

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

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

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

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

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

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

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

Oil, natural gas liquids and natural gas commodity prices in North America continue to see weakness, and in general all trade at discounts to comparable world-wide bench-marks. This increases risk to CES' customers and reduces their available cash flow. After reaching a low in August 2015 of USD\$38/bbl, West Texas Intermediate ("WTI") crude prices have been trading in narrow band in the mid to low USD\$40/bbl range. Prices are likely to continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward curves for 2016 and 2017 are trading around USD\$50/bbl which is far below the USD\$100/bbl pricing enjoyed by operators between July 2013 and July 2014. In addition, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets with regulatory approvals of several proposed pipeline projects in limbo and potential changes to the crude by rail industry in the face of several derailments. Natural gas prices have remained relatively weak since their peak in 2008. The recent build in storage and warm winter forecast for North America has most quoted spot prices trading below USD\$2.00 per MMBtu, and the futures curve for Nymex Henry Hub is trading below USD\$3.00 per MMBtu for 2016. In response to overall low commodity prices, drilling activity has slowed considerably and pricing pressure from customers has persistently increased. Spring break-up in WCSB came early in 2015 and the return to activity out of Spring break-up has been muted. In the US, drilling activity, which appeared to have found a bottom earlier in 2015, resumed its decline in late Q3 2015 and has continued declining throughout Q4 2015.

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

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

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

CES takes its health, safety, and environmental responsibilities seriously and has instituted standards, policies, and procedures to address these risks. In addition, CES maintains insurance policies with respect to its operations providing coverage over what it considers to be material insurable risks. Although the Company maintains insurance policies, such insurance may not provide adequate coverage in all circumstances, nor are all such risks insurable. It is possible that the Company's insurance coverage will not be sufficient to address the costs arising out of the allocation of liabilities and risk of loss.

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, reviewing and actively following up on older accounts, and insuring trade credit risks where deemed appropriate. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if the current low oil and natural gas price environment persists, and if access to capital markets remains weak for CES' customers, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk. It should be noted that in light of current market conditions, CES has placed trade credit insurance over its 2015 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature. It is uncertain at this time whether this insurance will be renewed for 2016.

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

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

The volatility in the financial markets over the past several years has impacted the general availability of both credit and equity financing in the marketplace. Economic and sovereign debt issues are ongoing in Europe and, although there is more optimism for stronger economic growth in the US, the strength and duration of the recovery remains uncertain. Despite CES' successful issuance of the Additional Senior Notes and the equity Offering completed in July 2014, since the fall of 2014 there has been a retreat in the energy equity and debt markets as a result of low commodity prices. As such, it may prove to be difficult under future market conditions to issue additional equity or increase credit capacity without significant costs. CES is also reliant on its Amended Senior Facility to fund working capital and other growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the 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 income and other taxation in various federal, provincial and state jurisdictions in Canada, the US, and Luxembourg. For the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audits and reassessments by the various taxation authorities and where applicable, the Company adjusts previously recorded tax expense to reflect audit adjustments. We believe we have

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adequately provided for all income tax obligations. However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities or new tax legislation could result in an increase or decrease to the Company's provision for income taxes. Although not quantifiable at this time, these differences could potentially have a material impact on future net income and the Company's effective tax rate.

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

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

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

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

## OUTLOOK

Q3 2015 results are reflective of the current difficult industry conditions with reduced activity levels lowering revenue and price discounting resulting in margin compression. There is limited visibility to a turnaround in the current low oil price and weak natural gas price environment. As such, CES remains cautious with its outlook for the remainder of 2015 and 2016. The end result is that until commodity prices improve, CES will do less drilling fluids work and will do all of its work for less money. CES' production and specialty chemical business should see growth in this downturn as it is expected that PureChem and JACAM will continue to take market share in a market that will continue to grow. With a strong balance sheet, CES is well positioned to weather the current downturn in oilfield activity. CES will focus on retaining accounts, rationalizing costs, monitoring and capturing opportunities and making strategic investments as required to position the business to capitalize on the next positive cycle.

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

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

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

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

From a manufacturing perspective, CES is undertaking further vertical integration initiatives at the JACAM facility with the build-out of nitrile capabilities to be completed in Q1 2016 and hydrogenation capabilities later in 2016. CES also commissioned the new barite grinding facility in Corpus Christi, Texas in Q4 2015 which will further vertically integrate the US drilling fluids business.

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

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

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

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

### **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>1,4</sup>  
Chairman

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

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

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

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

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

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

Thomas J. Simons

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

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

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

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

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

### OFFICERS

Thomas J. Simons  
President & Chief Executive Officer

Craig F. Nieboer, CA  
Chief Financial Officer

Kenneth E. Zinger  
Canadian President & Chief Operating Officer

Kenneth D. Zandee  
Vice President, Marketing

Jason D. Waugh  
Vice President

James M. Pasioka  
Corporate Secretary

### AUDITORS

Deloitte LLP  
Chartered Accountants, Calgary, AB

### BANKERS

Scotiabank Canada, Calgary, AB

### SOLICITORS

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

### REGISTRAR & TRANSFER AGENT

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

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