

## PRESS RELEASE FOR IMMEDIATE DISTRIBUTION

November 10, 2016

# Canadian Energy Services & Technology Corp. Announces Results for the Third Quarter Ended September 30, 2016 and Declares Cash Dividend

Canadian Energy Services & Technology Corp. ("CES" or the "Company") (TSX: CEU)(OTCQX: CESDF) is pleased to report on its financial and operating results for the three and nine months ended September 30, 2016. Further, CES announced today that it will pay a cash dividend of \$0.0025 per common share on December 15, 2016 to the shareholders of record at the close of business on November 30, 2016.

CES generated revenue of \$145.1 million during the three months ended September 30, 2016, compared to \$187.8 million for the three months ended September 30, 2015, a decrease of \$42.6 million or 23%. Year-to-date, revenue totaled \$380.0 million, compared to \$584.7 million for the nine months ended September 30, 2015, representing a decrease of \$204.7 million or 35% on a year-over-year basis. For the three month period ended September 30, 2016, CES recorded Cash Gross Margin of \$40.7 million or 28% of revenue, compared to Cash Gross Margin of \$49.5 million or 26% of revenue generated in the same period last year. Year-to-date, CES recorded Cash Gross Margin of \$96.9 million or 25% of revenue compared to \$157.9 million or 27% of revenue generated in the same period in 2015. Adjusted EBITDAC for the three months ended September 30, 2016 was \$17.1 million representing a decrease of \$7.5 million or 30% from the third quarter of 2015. Year-to-date, the Company's Adjusted EBITDAC was \$26.6 million representing a decrease of \$58.6 million or 69%.

CES' third quarter 2016 results are reflective of the continued difficult industry conditions with reduced activity levels from the prior year comparable period and the cumulative effect of price discounting since the start of the downturn in late 2014. However in comparison to the second quarter 2016 results, the third quarter has shown significant positive improvement. The improved results are attributable to CES' cost reduction initiatives taking effect, combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. In addition, with the Catalyst Acquisition and the organic growth of PureChem, production chemicals contribution to EBITDAC grew significantly over the second quarter 2016.

Revenue generated in the US for the three months ended September 30, 2016 was \$92.8 million compared to \$120.5 million for the three months ended September 30, 2015, a decrease of \$27.7 million or 23%. For the nine month period ended September 30, 2016, US revenues were \$250.9 million compared to \$405.0 million for the same period in 2015, representing a decrease of \$154.1 million, or 38%. US Treatment Points rose 42% in Q3 2016 in comparison to Q3 2015 primarily as a result of the Catalyst Acquisition. However, US revenues were negatively affected by the following: a decline in frac related chemical sales as industry activity slowed; operators reducing their chemical usage on wells to try and "optimize" their chemical spend; customer well shut-ins; and the cumulative effects of the price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs. Q3 2016 revenues in the US were also negatively affected by reduced industry rig counts and the continued difficult pricing environment for the drilling fluids business. For the nine months ended September 30, 2016, the Company's US revenues were positively impacted on translation by weakness in CAD versus USD over the comparable period in 2015.

Revenue generated in Canada for the three months ended September 30, 2016, was \$52.3 million compared to \$67.2 million for the three months ended September 30, 2015, a decrease of \$14.9 million or 22%. For the nine month period ended September 30, 2016, revenue in Canada was \$129.1 million compared to \$179.7 million in the same period in 2015, representing a decline of \$50.6 million or 28%. PureChem continued to gain market share in Canada in production chemicals as Canadian Treatment Points have increased from the comparative period,

however these gains in market share have been offset by price discounting, customers optimizing their chemical spend, and weaker frac related chemical sales. The drilling fluids business continues to experience pricing pressure from its customers and revenue was negatively affected by the continued year-over-year decline in drilling activity in Canada.

CES has responded to the falling activity levels and continued pricing pressure by further rationalizing costs and headcount in Canada and the US. During the three and nine months ended September 30, 2016, CES incurred \$0.2 million and \$2.1 million, respectively, in additional restructuring costs as a result of rationalization efforts in the drilling fluids businesses and corporate overhead. As a result of these staff reductions and compensation adjustments, CES estimates it will realize over \$20.0 million of annualized savings.

On August 1, 2016, through a US subsidiary, CES completed the acquisition (the "Catalyst Acquisition") of all of the production and specialty chemical business assets of Catalyst Oilfield Services, LLC. ("Catalyst"). Established in 2005, and headquartered just outside of Midland Texas, in Gardendale, Catalyst was a West Texas based private company. Catalyst will significantly expand CES' position and market-share of production and specialty chemicals in the Permian Basin, selling into the production, fracturing, drilling, and pipeline verticals. Catalyst has over 180 customers with particular concentration of both accounts and sales in the Delaware Basin.

CES has cash of approximately \$20.0 million on the balance sheet, a net \$nil draw on the Amended Senior Facility, and \$300 million of Senior Notes which are not due until April 2020. Cash interest costs, maintenance capital, and dividends in 2016 should be fully funded from EBITDAC.

CES also announced today that it will pay a cash dividend of \$0.0025 per common share on December 15, 2016 to the shareholders of record at the close of business on November 30, 2016.

## **Revised CES Q3 Results Conference Call Details**

With respect to the third quarter results, CES will host a conference call / webcast at 3:00 pm MST (5:00 pm EST) on Thursday, November 10, 2016.

North American toll-free: 1-(877) 291-4570 International / Toronto callers: 647-788-4922 Link to Webcast: http://www.canadianenergyservices.com/

#### Outlook

Through a combination of cost cutting and industry activity pick-up, Q3 2016 saw CES come off its fixed cost base and post modest EBITDAC in the quarter. Despite the improvement in industry activity in Q3 2016 and to date in Q4 2016, CES remains cautious with its outlook with no clear visibility to a significant turnaround given the current low oil price and weak natural gas price environment. The end result is that until commodity prices improve, CES sees continued muted upstream activity across North America and very thin margins to be realized on that work. In many cases revenues will only cover the cash field costs and not the related fixed costs and overheads. continues to see significant opportunities in its production and specialty chemical business. However, our customers are under extreme pressure to lower lifting costs. CES believes it has the technologies to help them achieve this, but to maintain and win work we are required to also lower prices, provide even more service, and in certain cases apply reduced treatment regimes, which temporarily reduce chemical usage. The current pricing environment is also making middlemen, or competitors who are resellers of other company's products, redundant. By being basic in the manufacture of the consumable chemicals it sells, CES continues to be price competitive and a technology leader. CES also believes that competitor consolidations and business failures will provide further opportunities for CES in a recovery scenario. In addition, CES expects that water usage, including the challenges of access for fracturing, and handling costs, will become increasingly more important for the oil and gas industry as activity levels recover. CES is focused on using its knowledge and leading technologies to create opportunities and solutions to address these problems.

CES believes that over time it can continue to grow its share of the oilfield consumable chemical market. The recently completed Catalyst Acquisition is another significant step forward in this regard as CES sees the Permian Basin as having the most near-term opportunities for growth. CES' strategy is to utilize its vertically integrated business model; its problem solving through science approach; its patented and proprietary technologies; and its

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.

#### **Business of CES**

CES is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. At the drill-bit, CES' designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CES' designed chemicals form a critical component of fracturing solutions or other forms of 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"), Sialco Materials Ltd. ("Sialco"), Clear Environmental Solutions ("Clear"), and EQUAL Transport ("EQUAL"). In the US, CES operates under the trade names AES Drilling Fluids ("AES"), AES Frac Fluids ("AES Frac"), Superior Weighting Products ("Superior Weighting"), JACAM Chemicals ("JACAM"), and Catalyst Oilfield Services ("Catalyst").

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

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

Led by JACAM's state of the art laboratory in Sterling, Kansas, CES now operates eight separate lab facilities across North America: two in Houston, Texas; two in Midland, Texas; and one in each of Carlyle, Saskatchewan; Delta, British Columbia; and Calgary, Alberta. In 2015 CES significantly expanded its laboratory capabilities in Calgary with the opening of its new laboratory. In the US, CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas with low-temperature reacting and chemical blending capabilities in Midland, Texas and additional chemical blending capabilities in Sonora, Texas. In Canada, CES has an additional chemical manufacturing and reacting facility located in Delta, British Columbia with additional chemical blending capabilities located in Carlyle, Saskatchewan and Nisku, Alberta. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

# **Financial Highlights**

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$000's, except per share amounts)	2016	2015	2016	2015
Revenue	145,140	187,757	380,022	584,656
Gross margin	32,134	41,258	71,798	134,753
Cash Gross Margin (1)	40,713	49,487	96,870	157,868
(Loss) income before taxes	(7,232)	4,505	(55,452)	21,192
per share – basic	(0.03)	0.01	(0.23)	0.10
per share - diluted	(0.03)	0.01	(0.23)	0.09
Net (loss) income (2)	(11,387)	6,457	(60,577)	22,126
per share – basic	(0.04)	0.03	(0.26)	0.10
per share - diluted	(0.04)	0.03	(0.26)	0.10
Adjusted EBITDAC (1)	17,056	24,561	26,562	85,227
per share – basic	0.07	0.11	0.11	0.39
per share - diluted	0.07	0.11	0.11	0.38
Funds Flow From Operations (1)	11,699	25,375	3,549	76,004
per share – basic	0.05	0.12	0.01	0.35
per share - diluted	0.05	0.11	0.01	0.34
Dividends declared	1,943	18,025	8,771	53,822
per share	0.0075	0.0825	0.0380	0.2475

	Three Months Ended September 30,		Nine Months Ended September 30,	
Shares Outstanding	2016	2015	2016	2015
End of period	261,665,788	219,168,309	261,665,788	219,168,309
Weighted average				
- basic	258,964,524	218,237,459	236,903,075	217,278,371
- diluted	258,964,524	224,545,092	236,903,075	223,194,480

	As at		
Financial Position (\$000's)	September 30, 2016	December 31, 2015	
Net working capital	212,114	230,222	
Total assets	944,539	931,537	
Long-term financial liabilities (3)	305,071	309,900	
Shareholders' equity (4)	552,455	531,648	

#### Notes

CES uses certain performance measures that are not recognizable under International Financial Reporting Standards ("IFRS"). These performance measures include net (loss) income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, 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, adjusted for specific items that are considered to be non-recurring in nature ("Adjusted EBITDAC"), and Funds Flow From Operations. Management believes that these measures provide supplemental financial information that is useful in the evaluation of CES' operations. Readers should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with IFRS as an indicator of CES' performance. CES' method of calculating these measures may differ from that of other organizations and, accordingly, these may not be comparable. Please refer to the Non-GAAP measures section of CES' MD&A for the three and nine months ended September 30, 2016.

<sup>&</sup>lt;sup>2</sup>Represents net (loss) income attributable to the shareholders of the Company

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

# **Cautionary Statement**

Except for the historical and present factual information contained herein, the matters set forth in this press release, may constitute forwardlooking 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 press release, such forward-looking 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 this press release. 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. The material assumptions in making forwardlooking statements include, but are not limited to, assumptions relating to demand levels and pricing for the oilfield consumable chemical offerings of the Company; fluctuations in the price and demand for oil and natural gas; anticipated activity levels of the Company's significant customers; commodity pricing; general economic and financial market conditions; the successful integration of recent acquisitions; the Company's ability to finance its operations; levels of drilling and other activity in the WCSB, the Permian and other US basins, the effects of seasonal and weather conditions on operations and facilities; changes in laws or regulations; currency exchange fluctuations; the ability of the Company to attract and retain skilled labour and qualified management; and other unforeseen conditions which could impact the Company's business of supplying oilfield consumable chemistry to the Canadian and US markets and the Company's ability to respond to such conditions.

In particular, this press release contains forward-looking information pertaining to the following: the seasonality of CES' business; the anticipated reduction in exposure to the effects of spring break-up in the WCSB; the duration of spring break-up; the certainty and predictability of future cash flows and earnings; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC, with excess cash generated and available sources of capital to fund growth capital and M&A activity; future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2016, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the expected timing and cost for completion of expansions at the JACAM and PureChem facilities; management's opinion of the impact of any potential litigation or disputes; potential outcomes of the CRA's intent to challenge the Canadian tax consequences of the Conversion; the application of critical accounting estimates and judgements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies and the results of any U.S. trade credit insurance claims; CES' ability to increase or maintain its market share, including expectations that PureChem and JACAM will increase market share in the oilfield consumable chemical market and Catalyst will increase market-share of production and specialty chemicals in the Permian Basin; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and speciality chemical sales and expected growth in the consumable chemicals market; expectations that CES will rationalize its drilling fluids cost structure; estimated annualized savings as a result of staff reductions, compensation adjustments, and reduced dividend payments; industry activity levels; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime; expectations regarding expansion of services in Canada and the United States; development of new technologies; expectations regarding CES' growth opportunities in Canada and the United States; the effect of acquisitions on the Company including the effect of the Catalyst Acquisition (as defined herein); expectations regarding the performance or expansion of CES' operations; expectations regarding the diversification of operations away from the drill-bit; expectations that competitor consolidation and business failures will provide future opportunities to CES; expectations regarding demand for CES' services and technology; the potential for CES to expand its business as it relates to water handling; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the 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 declines in prices for oil, and pricing differentials between world pricing and pricing in North America; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the U.S. dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; reassessment and audit risk associated with the Conversion and other tax filing matters; changes 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, 2015 and "Risks and Uncertainties" in CES' MD&A. dated November 10, 2016.

CES has filed its third quarter 2016 unaudited condensed consolidated financial statements and notes thereto as at and for the three and nine months ended September 30, 2016, and accompanying management discussion and analysis in accordance with National Instrument 51-102 - *Continuous Disclosure Obligations* adopted by the Canadian securities regulatory authorities. Additional information about CES will be available on CES' SEDAR profile at <a href="https://www.sedar.com">www.sedar.com</a> and CES' website at <a href="https://www.canadianEnergyServices.com">www.canadianEnergyServices.com</a>.

# For further information, please contact:

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