Q2

Three and Six Months Ended June 30, 2016 as at August 11, 2016

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 six months ended June 30, 2016, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2015 and 2014, and CES' 2015 Annual Information Form. This MD&A is dated August 11, 2016, 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.

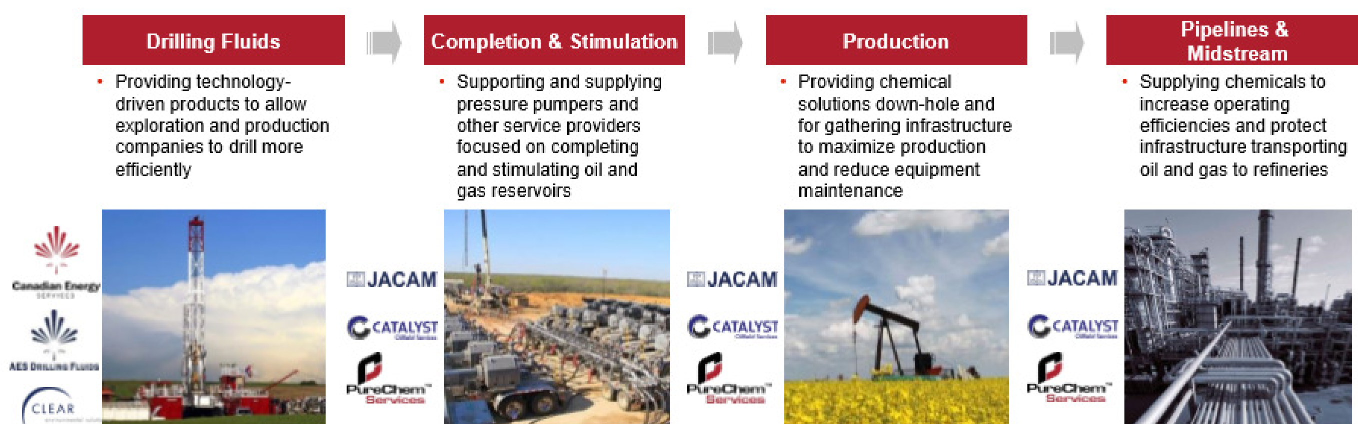
In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business; the anticipated reduction in exposure to the effects of spring break-up in the WCSB; the duration of spring break-up; the certainty and predictability of future cash flows and 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 (as defined herein); 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 this MD&A.

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

BUSINESS OF CES

CES is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. At the drill-bit, CES' designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CES' designed chemicals form a critical component of fracturing solutions or other forms of 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_2S 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_2S.



Oilfield Knowledge + Vertically Integrated Technology + Manufacturing = Competitive Advantage

CES operates in the Western Canadian Sedimentary Basin ("WCSB") and in several basins throughout the United States ("US"), with an emphasis on servicing the ongoing major resource plays. In Canada, CES operates under the trade names Canadian Energy Services, PureChem Services ("PureChem"), 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.

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.

From the period of January 1, 2010, to November 30, 2015, the Company had increased its monthly dividend eleven times from $0.0067 per share to $0.0275 per common share, or 4.1 times greater on a per share basis. In response to the deteriorating market conditions, in December 2015 CES announced a reduced dividend of $0.018 per common share and announced a further reduction in February 2016 to $0.0025 per common share payable in March 2016. This reduced dividend level is in response to the low oil price environment and preserves the strength of the Company's balance sheet while providing liquidity to fund potential growth initiatives. CES will continue to be protective of its balance sheet and prudent with its cash dividend going forward, particularly as the current low oil price environment continues.

RECENT COMPANY DEVELOPMENTS

Catalyst Acquisition

On August 1, 2016, through a US subsidiary, CES completed the acquisition of all of the production and specialty chemical business assets of Catalyst Oilfield Services, LLC. ("Catalyst"). Established in 2005, and headquartered just outside of Midland Texas, in Gardendale, Catalyst is 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.

Additional details regarding Catalyst's operations are detailed in the Company's August 1, 2016 press release which can be found at the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com or on the Company's web site at www.canadianenergyservices.com.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Net (loss) income	**(25,597)**	1,758	**(49,190)**	15,669
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**8,334**	7,574	**17,341**	15,194
Depreciation on property and equipment in G&A	**1,201**	550	**2,445**	1,337
Amortization on intangible assets in G&A	**4,931**	4,983	**10,054**	9,803
Interest expense, net of interest income	**5,557**	5,998	**11,366**	12,032
Amortization of capitalized deferred financing costs	**316**	331	**631**	663
Current income tax expense (recovery)	**4,252**	(2,153)	**2,706**	(1,726)
Deferred income tax (recovery) expense	**(1,315)**	495	**(1,736)**	2,500
Stock-based compensation	**2,395**	6,506	**8,761**	11,674
Unrealized foreign exchange loss (gain)	**15**	(8)	**16**	(89)
Unrealized derivative (gain) loss	**(240)**	(487)	**4,185**	(266)
Gain on disposal of assets	**(488)**	(121)	**(848)**	(308)
Other (income) loss	**(50)**	(5,816)	**181**	(5,816)
EBITDAC	**(689)**	19,610	**5,912**	60,667

Adjusted EBITDAC – is defined as EBITDAC noted above, adjusted for specific items that are considered to be non-recurring in nature. Management believes that this metric is relevant when assessing normalized operating performance.

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

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

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

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

Cash General and Administrative Costs – represents general and administrative costs under IFRS adjusted to exclude non-cash expenses recorded in general and administrative costs such as stock-based compensation and depreciation and amortization as it relates to assets not associated with operations and operating related activities. Management believes that this metric assists in demonstrating the cash general and administrative expenses of the Company.

Cash Interest Expense – represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the Senior Notes and the 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.

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

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended June 30,			Six Months Ended June 30,		
($000's, except per share amounts)	**2016**	2015	% Change	**2016**	2015	% Change
Revenue	**97,733**	163,137	(40%)	**234,882**	396,899	(41%)
Gross margin	**15,754**	36,264	(57%)	**39,664**	93,495	(58%)
as a percentage of revenue	**16%**	22%		**17%**	24%	
Cash Gross Margin (1)	**23,600**	43,717	(46%)	**56,157**	108,381	(48%)
as a percentage of revenue	**24%**	27%		**24%**	27%	
(Loss) income before taxes	**(22,660)**	178	(12830%)	**(48,220)**	16,687	(389%)
per share – basic	***(0.10)***	*0.01*	*(1100%)*	***(0.21)***	*0.08*	*(363%)*
per share - diluted	***(0.10)***	*0.01*	*(1100%)*	***(0.21)***	*0.07*	*(400%)*
Net (loss) income (2)	**(25,597)**	1,758	(1556%)	**(49,190)**	15,669	(414%)
per share – basic	***(0.11)***	*0.01*	*(1200%)*	***(0.22)***	*0.07*	*(414%)*
per share - diluted	***(0.11)***	*0.01*	*(1200%)*	***(0.22)***	*0.07*	*(414%)*
EBITDAC (1)	**(689)**	19,610	(104%)	**5,912**	60,667	(90%)
per share – basic	**-**	*0.09*	*(100%)*	***0.03***	*0.28*	*(89%)*
per share - diluted	**-**	*0.09*	*(100%)*	***0.03***	*0.27*	*(89%)*
Funds Flow From Operations (1)	**(10,488)**	15,865	(166%)	**(8,150)**	50,629	(116%)
per share – basic	***(0.05)***	*0.07*	*(171%)*	***(0.04)***	*0.23*	*(117%)*
per share - diluted	***(0.05)***	*0.07*	*(171%)*	***(0.04)***	*0.23*	*(117%)*
Dividends declared	**1,749**	17,949	(90%)	**6,828**	35,797	(81%)
per share	***0.0075***	*0.0825*	*(91%)*	***0.0305***	*0.1650*	*(82%)*

Notes:
[1] Refer to "Non-GAAP Measures" for further detail.
[2] Represents net (loss) income attributable to the shareholders of the Company.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and six months ended June 30, 2016, in comparison to the three and six months ended June 30, 2015, for CES are as follows:

- Reflective of the increasingly challenging oilfield market in North America, EBITDAC for the three months ended June 30, 2016 was negative $0.7 million as compared to $19.6 million for the three months ended June 30, 2015, representing a decrease of $20.3 million or 104%. Year-to-date, EBITDAC was $5.9 million as compared to $60.7 million for the six months ended June 30, 2015, representing a decrease of $54.8 million or 90%. During the three and six months ended June 30, 2016, the Company recorded the following one-time items considered to be non-recurring that negatively impacted EBITDAC:
  - $0.7 million and $1.7 million, respectively, in additional restructuring costs as a result of further rationalization efforts in the drilling fluids businesses. As a result of the staff reductions and compensation rationalizations made since the beginning of 2016, CES estimates it has created over $20.0 million of annualized savings.
  - In light of current market conditions, additional bad debt allowance of $0.6 million and $1.7 million, respectively, was recorded in general and administrative expenses.

  Removing the impact of these one-time items, the Company's Adjusted EBITDAC for the three months ended June 30, 2016 was $0.6 million representing a decrease of $19.0 million or 97% from the second quarter of 2015. Year-to-date, the Company's Adjusted EBITDAC was $9.3 million representing a decrease of $51.3 million or 85%. Year-over-year, the Company's operating results were negatively affected by the current low commodity price environment and by the additional factors outlined below.

- CES generated revenue of $97.7 million during the three months ended June 30, 2016, compared to $163.1 million for the three months ended June 30, 2015, a decrease of $65.4 million or 40%. Year-to-date, revenue totaled $234.9 million, compared to $396.9 million for the six months ended June 30, 2015, representing a decrease of $162.0 million or 41% on a year-over-year basis. Revenue was negatively affected by a continued drop in drilling activity, and an overall reduction in revenue due to persistent, intense pricing pressure across all business units in the current low commodity price environment. Offsetting these negative factors was the year-over-year increase in Treatment Points for 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 June 30, 2016 was $68.3 million compared to $127.8 million for the three months ended June 30, 2015, a decrease of $59.5 million or 47%. For the six month period ended June 30, 2016, US revenues were $158.1 million compared to $284.5 million for the same period in 2015, representing a decrease of $126.4 million, or 44%. JACAM's Treatment Points rose 5% in Q2 2016 in comparison to Q2 2015. However, US revenues were negatively affected by the following: a decline in frac related chemical sales as industry activity slowed; severe wet weather that hampered chemical deliveries; operators reducing their chemical usage on wells to try and "optimize" their chemical spend; customer well shut-ins; and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs. Q2 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. During Q2 2016, customers continued to pull back on spending and activity in response to lower commodity prices. For both the three and six months ended June 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 June 30, 2016, was $29.5 million compared to $35.4 million for the three months ended June 30, 2015, a decrease of $5.9 million or 17%. For the six month period ended June 30, 2016, revenue in Canada was $76.8 million compared to $112.4 million in the same period in 2015, representing a decline of $35.6 million or 32%. PureChem continued to gain market share in Canada and increased the number of Treatment Points during the quarter, however these gains were offset by price discounting, customers optimizing their chemical spend, and weaker frac related chemical sales. The drilling fluids business continues to experience intense pricing pressure from its customers and revenue was negatively affected by the continued decline in drilling activity in Canada throughout the quarter resulting in a protracted spring break-up that outlasted the typical annual constraints due to weather.

- For the three month period ended June 30, 2016, CES recorded Cash Gross Margin of $23.6 million or 24% of revenue, compared to Cash Gross Margin of $43.7 million or 27% of revenue generated in the same period last year. Year-to-date, CES recorded Cash Gross Margin of $56.2 million or 24% of revenue compared to $108.4 million or 27% of revenue generated in the same period in 2015. The decline in Cash Gross Margin for the period is a result of the margin compression experienced in both Canada and the US. Pricing pressure persisted across all business units during the quarter. In addition US industry rig count continued to drop during the second quarter of 2016 and bottomed out at 380 in late May. The reduced US activity levels left revenues unable to cover the required fixed cost base to operate and made many regions in the US unprofitable. CES has responded to the falling activity levels by rationalizing costs and headcount in Canada and the US throughout the year. In addition, the Canadian business' Cash Gross Margin was negatively impacted by cost inflation of all USD inputs as CAD weakened considerably when compared to the prior year. 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.

- CES recorded a net loss of $25.6 million for the three month period ended June 30, 2016 as compared to net income of $1.8 million the prior year. CES recorded net (loss) income per share of ($0.11) (($0.11) diluted) for the three months ended June 30, 2016 versus $0.01 ($0.01 diluted) in Q2 2015. For the year-to-date period, CES recorded a net loss of $49.2 million compared to net income of $15.7 million in 2015. CES recorded net (loss) per share of ($0.22) (($0.22) diluted) for the six months ended June 30, 2016 versus $0.07 ($0.07 diluted) in 2015. The respective year-over-year decrease in net income resulted from the factors discussed above, and was further impacted by higher depreciation and amortization and the provision for the proposed tax settlement relating to the Conversion, as outlined below in "Current and Deferred Income Taxes".

- The Company had a net draw of $nil on its Amended Senior Facility at June 30, 2016 and capitalized transaction costs pertaining to the Amended Senior Facility of $0.7 million (December 31, 2015 – $0.4 million, net of capitalized transaction costs of $0.5 million). Based on the Senior Funded Debt to trailing EBITDA ratio, the maximum available draw on the

Amended Senior Facility at June 30, 2016, was approximately $113.6 million (December 31, 2015 - $200.0 million). As at the date of this MD&A, the Company had a net draw of $nil on its Amended Senior Facility and a cash balance of approximately $42.0 million. At June 30, 2016, CES is in compliance with the terms and covenants of its Amended Senior Facility.

- At June 30, 2016, the Company had $300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2015 - $300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The 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. At June 30, 2016, CES is in compliance with the terms and covenants of its Senior Notes.

- On June 8, 2016, the Company, through a syndicate of underwriters, completed an over-subscribed bought deal short-form prospectus offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued a total of 30,670,500 common shares of the Company for gross proceeds of $92.0 million. Net proceeds, after offering expenses and underwriter's commission of approximately $4.1 million, were $87.9 million.

- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $267.2 million as at June 30, 2016 (December 31, 2015 – $230.2 million).

- During the second quarter of 2016, CES declared monthly dividends totalling $0.0075 per share as compared to $0.0825 per share for the same period in 2015. In response to the deteriorating industry conditions and in order to preserve balance sheet strength CES reduced its monthly dividend to $0.0025 per share effective February 2016. On an annualized basis, the revised dividend is $0.03 per common share. CES estimates that it will conserve approximately $58.0 million in cash in 2016 over 2015 based on the new dividend level. CES will retain the shareholders' cash to preserve balance sheet strength and provide liquidity to fund potential growth initiatives. During the second quarter of 2016, the Company's Payout Ratio averaged negative 15% as compared to 119% in Q2 2015. Year-to-date, the Company's Payout Ratio averaged negative 72% as compared to 72% in 2015. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

RESULTS FOR THE PERIODS

	Three Months Ended June 30,			
($000's, except per share amounts)	**2016**	2015	$ Change	% Change
Revenue	**97,733**	163,137	(65,404)	(40%)
Cost of sales	**81,979**	126,873	(44,894)	(35%)
Gross margin	**15,754**	36,264	(20,510)	(57%)
Gross margin percentage of revenue	**16%**	22%		
General and administrative expenses	**31,929**	35,750	(3,821)	(11%)
Finance costs	**6,535**	6,152	383	6%
Other loss	**(50)**	(5,816)	5,766	n/a
(Loss) income before taxes	**(22,660)**	178	(22,838)	(12830%)
Current income tax (recovery) expense	**4,252**	(2,153)	6,405	(297%)
Deferred income tax (recovery) expense	**(1,315)**	495	(1,810)	(366%)
Net (loss) income	**(25,597)**	1,836	(27,433)	(1494%)
Less: net income attributable to non-controlling interest	**-**	78	(78)	(100%)
Net (loss) income attributable to shareholders of the Company	**(25,597)**	1,758	(27,355)	(1556%)
Net (loss) income per share – basic	***(0.11)***	*0.01*	*(0.12)*	*(1200%)*
Net (loss) income per share – diluted	***(0.11)***	*0.01*	*(0.12)*	*(1200%)*
EBITDAC [(1)]	**(689)**	19,610	(20,299)	(104%)

Common Shares Outstanding	**2016**	2015	% Change
End of period	**253,867,856**	217,816,380	17%
Weighted average			
- basic	**230,573,931**	217,442,891	6%
- diluted	**230,573,931**	223,738,234	3%

	As at		
Financial Position ($000's)	**June 30, 2016**	December 31, 2015	% Change
Net working capital	**267,156**	230,222	16%
Total assets	**902,167**	931,537	(3%)
Long-term financial liabilities [(2)]	**307,900**	309,900	(1%)
Shareholders' equity [(3)]	**528,297**	531,648	(1%)

Notes:

[1] *Refer to the "Non-GAAP Measures" for further detail.*

[2] *Includes long-term portion of the deferred acquisition consideration, the Amended Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.*

[3] *Represents shareholders' equity attributable to the shareholders of the Company.*

($000's, except per share amounts)	Six Months Ended June 30,			
	2016	2015	$ Change	% Change
Revenue	**234,882**	396,899	(162,017)	(41%)
Cost of sales	**195,218**	303,404	(108,186)	(36%)
Gross margin	**39,664**	93,495	(53,831)	(58%)
Gross margin percentage of revenue	**17%**	24%		
General and administrative expenses	**70,945**	71,975	(1,030)	(1%)
Finance costs	**16,758**	10,649	6,109	57%
Other income	**181**	(5,816)	5,997	(100%)
(Loss) income before taxes	**(48,220)**	16,687	(64,907)	(389%)
Current income tax (recovery) expense	**2,706**	(1,726)	4,432	(257%)
Deferred income tax (recovery) expense	**(1,736)**	2,500	(4,236)	(169%)
Net (loss) income	**(49,190)**	15,913	(65,103)	(409%)
Less: net income attributable to non-controlling interest	**-**	244	(244)	(100%)
Net (loss) income attributable to shareholders of the Company	**(49,190)**	15,669	(64,859)	(414%)
Net (loss) income per share – basic	***(0.22)***	*0.07*	*(0.29)*	*(414%)*
Net (loss) income per share – diluted	***(0.22)***	*0.07*	*(0.29)*	*(414%)*
EBITDAC [2]	**5,912**	60,667	(54,755)	(90%)

Common Shares Outstanding	**2016**	2015	% Change
End of period	**253,867,856**	217,816,380	17%
Weighted average			
- basic	**225,751,133**	216,790,878	4%
- diluted	**225,751,133**	222,506,650	1%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*

Revenue and Operating Activities
CES generated revenue of $97.7 million during the three months ended June 30, 2016, compared to $163.1 million for the three months ended June 30, 2015, a decrease of $65.4 million or 40%. Year-to-date, gross revenue totaled $234.9 million, compared to $396.9 million for the six months ended June 30, 2015, representing a decrease of $162.0 million or 41% on a year-over-year basis.

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

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

Revenue generated in Canada for the three months ended June 30, 2016 decreased by $5.9 million or 17% compared to the three months ended June 30, 2015, from $35.4 million to $29.5 million. For the six month period ended June 30, 2016, revenue in Canada was $76.8 million compared to $112.4 million in the same period in 2015, representing a decline of $35.6 million or 32%. 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 intense pricing pressure from its customers and revenue was negatively impacted by the continued decline in drilling activity in Canada throughout the quarter. The peak industry rig activity levels at the drill-bit in Canada were down by 53% from Q2 2015

to Q2 2016 and down 49% from the six months ended June 30, 2015 compared to the same period in 2016, as customers curtailed spending in order to preserve capital, resulting in a protracted spring break-up that outlasted the typical weather constraints. Correspondingly, the Company saw a 46% decline in Canadian Operating Days from Q2 2015 to Q2 2016 and a decline of 49% for the year-to-date comparative period. Despite the fall in drilling activity, the Company achieved Canadian Market Share of 33% for the three and six months ended June 30, 2016, as compared with 30% and 33% for the three and six months ended June 30, 2015, respectively. 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 six months ended June 30, 2016, is $0.8 million and $2.1 million, respectively, (2015 – $1.2 million and $4.2 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 significant year-over-year drop in revenue which has been exacerbated as operators have cut back on all non-core spending and, similar to all service lines, pricing pressure and discounting of services only intensified as the year unfolded. 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 June 30, 2016, decreased by $59.5 million or 47% compared to the three months ended June 30, 2015, from $127.8 million to $68.3 million. For the six month period ended June 30, 2016, revenue in the US was $158.1 million compared to $284.5 million in the same period in 2015, representing a decline of $126.4 million or 44%. Q2 2016 revenues in the US were negatively affected by reduced industry rig counts and continued intense pricing pressure from customers. During Q2 2016, customers continued to pull back on spending and activity in response to lower commodity prices. US average industry rig count declined 55% from 878 in Q2 2015 to 399 in Q2 2016 and US Operating Days were down 52% for the comparable period. Despite the fall in industry activity and US Operating Days, the Company's US Market Share was 10% during the three months ended June 30, 2016, consistent with 10% in the comparable period in 2015. JACAM's estimated Treatment Points rose by 5% in Q2 2016 in comparison to Q2 2015 however, this growth was muted as a result of severe wet weather across parts of the US that hampered deliveries during the quarter, a decline in frac related chemical sales, customers further optimizing their chemical spend, customer well shut-ins, and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs.

A summary of rig counts and Operating Days for the three and six months ended June 30, 2016, is as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Canadian industry rig count [(1)]	**44**	95	(53%)	**99**	193	(49%)
US industry rig count [(2)]	**399**	878	(55%)	**463**	1,104	(58%)

Notes:
[1] Based on the quarterly average of CAODC published monthly data for Western Canada.
[2] Based on the quarterly average of Baker Hughes published land data for the United States

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Canada	**1,381**	2,537	(46%)	**5,850**	11,440	(49%)
US	**3,753**	7,890	(52%)	**8,450**	19,536	(57%)
Total Operating Days [(1)]	**5,134**	10,427	(51%)	**14,300**	30,976	(54%)

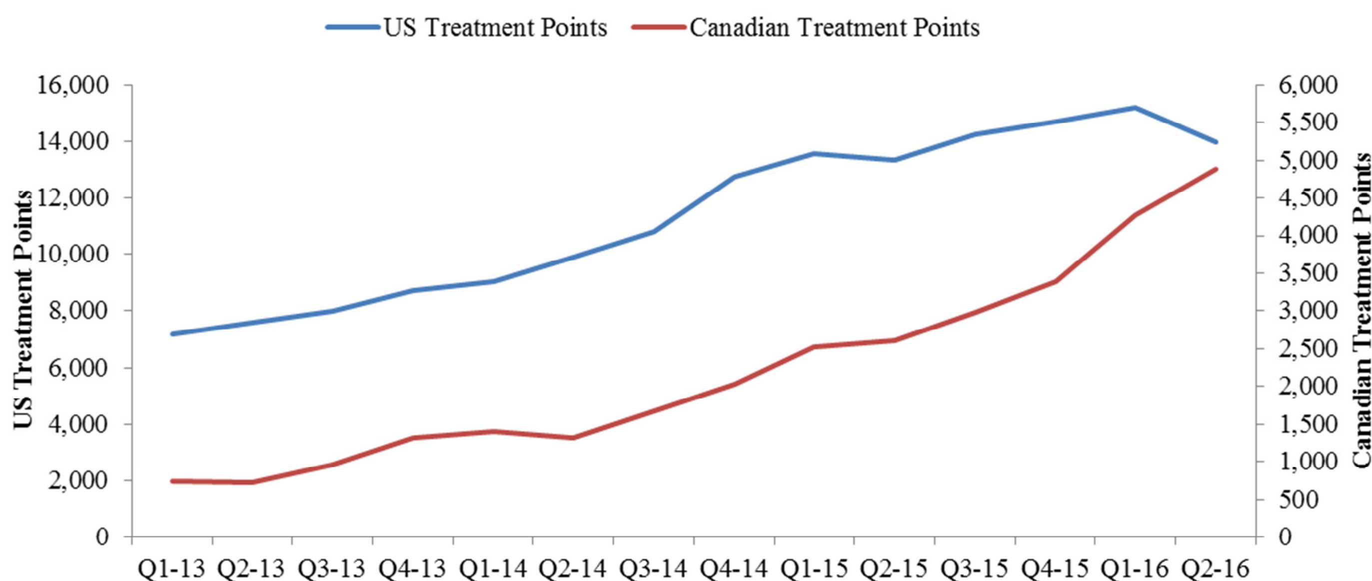
Notes:
[1] Refer to "Operational Definitions" for further detail.

The following table summarizes estimated Treatment Points during the three and six months ended June 30, 2016 as compared to the same period in 2015:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change	**2016**	2015	% Change
Canada	**4,880**	2,606	87%	**9,144**	5,129	78%
US	**13,968**	13,350	5%	**29,174**	26,896	8%
Total Treatment Points [(1)]	**18,848**	15,955	18%	**38,318**	32,025	20%

Notes:
[1] *Refer to "Operational Definitions" for further detail.*

As evidenced by the graph below, Treatment Points have continued to generally trend upwards since the JACAM Acquisition in March of 2013:



For the three and six three months ended June 30, 2016, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Top five customers as a % of total revenue	**22%**	30%	**20%**	29%
Top customer as a % of total revenue	**11%**	15%	**10%**	14%

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 manage seasonal activity swings as well as overall fluctuations in the demand for CES' products and services.

For the three month period ended June 30, 2016, CES recorded gross margin of $15.8 million or 16% of revenue, compared to gross margin of $36.3 million or 22% of revenue generated in the same period last year. Year-to-date, CES recorded gross margin of $39.7 million, or 17% of revenue, compared to $93.5 million or 24% of revenue for the same period in 2015. 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 overall 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 2016 as compared to 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Gross margin	**15,754**	36,264	**39,664**	93,495
as a percentage of revenue	**16%**	22%	**17%**	24%
Add back (deduct):				
Depreciation included in cost of sales	**8,334**	7,574	**17,341**	15,194
Gain on disposal of assets included in cost of sales	**(488)**	(121)	**(848)**	(308)
Cash Gross Margin [1]	**23,600**	43,717	**56,157**	108,381
as a percentage of revenue	**24%**	27%	**24%**	27%

Notes:
[1] *Refer to "Non-GAAP Measures" for further detail.*

For the three month period ended June 30, 2016, CES recorded Cash Gross Margin of $23.6 million or 24% of revenue, compared to Cash Gross Margin of $43.7 million or 27% of revenue generated in the same period last year. For the year-to-date period ended June 30, 2016, CES recorded Cash Gross Margin of $56.2 million, or 24% of revenue, compared to Cash Gross Margin of $108.4 million or 27% of revenue in 2015. The decline in Cash Gross Margin is reflective of the continued decline in drilling activity and the significant price discounting experienced across all business units in both Canada and US. CES has responded to the falling activity levels by further rationalizing costs and headcount in Canada and the US throughout 2016. The Company expects pricing pressure and margin compression to continue in this low commodity price environment as customers are increasingly focused on managing near-term cash lifting costs, and as competitors take more desperate actions to retain market share. In addition, the Canadian business' gross margin was negatively impacted by cost inflation of all USD inputs as the CAD weakened considerably when compared to Q2 2015 and, in the current commodity price environment, these higher costs could not be passed on to the customer.

General and Administrative Expenses ("G&A")

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
General and administrative expenses	**31,929**	35,750	**70,945**	71,975
as a percentage of revenue	**33%**	22%	**30%**	18%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	**2,395**	6,506	**8,761**	11,674
Depreciation & amortization	**6,132**	5,533	**12,499**	11,140
Cash General and Administrative Costs [(1)]	**23,402**	23,711	**49,685**	49,161
as a percentage of revenue	**24%**	15%	**21%**	12%

Notes:
[1] *Refer to "Non-GAAP Measures" for further detail.*

For the three month period ended June 30, 2016, CES recorded Cash General and Administrative Costs of $23.4 million or 24% of revenue, compared to Cash General and Administrative Costs of $23.7 million or 15% of revenue generated in the same period last year. Year-to-date, CES recorded Cash General and Administrative Costs of $49.7 million or 21% of revenue, compared to $49.2 million or 12% of revenue in the same period in 2015. Cash General and Administrative Costs as a percentage of revenue for the three and six months ended June 30, 2016, has increased primarily as a result of the decline in revenues. Throughout 2016, the Company has taken further actions to rationalize Cash General and Administrative Costs. These cost reduction measures included reduced corporate and administrative headcounts, reduced compensation levels, and reductions in discretionary spending. These efforts have been focused in particular on the drilling activity dependent divisions and have been partially offset by increased sales and administration costs related to the growing production and specialty chemical businesses in both Canada and the US. Further offsetting the cost reduction initiatives are some one-time items incurred in the second quarter of 2016 that include $0.6 million in additional bad debt allowances and $0.7 million in additional restructuring costs. Finally, for both the three and six months ended June 30, 2016, US source G&A was negatively impacted on translation by weakness in CAD versus USD over the comparable period in 2015. In USD terms, normalized for one-time costs of re-structuring and allowance for doubtful accounts, Cash SG&A costs in the US have decreased by US$2.0 million and US$3.6 million for the three and six months ended June 30, 2016, respectively, reflecting the effect of rationalization measures enacted throughout the year. CES continues 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	**8,334**	7,574	**17,341**	15,194
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	**4,931**	4,714	**10,054**	9,503
Depreciation expense on property and equipment	**1,201**	819	**2,445**	1,637
	6,132	5,533	**12,499**	11,140
Total depreciation and amortization expense	**14,466**	13,107	**29,840**	26,334

Depreciation of property and equipment and amortization of intangible assets totalled $14.5 million for the three month period ended June 30, 2016, as compared to $13.1 million for the same period in 2015. For the three months ended June 30, 2016, $8.3 million (Q2 2015 – $7.6 million) of depreciation of property and equipment was included in cost of sales and $6.1 million (Q2 2015 – $5.5 million) of depreciation and amortization was included in G&A, of which $4.9 million related to amortization of intangible assets (Q2 2015 – $4.7 million). For the year-to-date period ending June 30, 2016, depreciation of property and equipment and amortization of intangible assets totalled $29.8 million, as compared to $26.3 million for the same period in 2015. Of this amount, $17.3 million (2015 - $15.2 million) was included in cost of sales and $12.5 million (2015 - $11.1 million) was included in G&A, of which $10.1 million related to amortization of intangible assets (2015 - $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 acquisition of Sialco, for which there was none in the comparable period in 2015. Depreciation recorded in the US was also negatively impacted on translation by weakness in CAD versus USD over the comparable period in 2015.

Finance Costs
For the three and six months ended June 30, 2016 and 2015, finance costs were comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Realized foreign exchange loss (gain)	**490**	(180)	**1,801**	(373)
Unrealized foreign exchange loss (gain)	**15**	(8)	**16**	(89)
Realized financial derivative loss (gain)	**397**	498	**(1,242)**	(1,318)
Unrealized financial derivative (gain) loss	**(240)**	(487)	**4,185**	(266)
Amortization of debt issue costs and premium	**316**	331	**631**	663
Interest on debt, net of interest income	**5,557**	5,998	**11,366**	12,032
Finance costs	**6,535**	6,152	**16,757**	10,649

Finance costs were $6.5 million for the three months ended June 30, 2016, as compared to $6.2 million during the same period in 2015. Year-to-date, CES incurred finance costs of $16.8 million, as compared to $10.6 million during 2015. The change in finance costs year-over-year is outlined below.

Interest expense
During the three and six months ended June 30, 2016, interest expense included in finance costs consists of interest expense on 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Total interest expense, net of interest income	**5,873**	6,329	**11,997**	12,695
Deduct non-cash interest expense:				
Amortization of debt issue costs and premium	**316**	331	**631**	663
Cash Interest Expense [(1)]	**5,557**	5,998	**11,366**	12,032

Notes:
[1] *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 June 30, 2016, compared to $6.0 million in the second quarter of 2015. For the six months ended June 30, 2016, the Company recorded Cash Interest Expense of $11.4 million as compared to $12.0 million in the same period in 2015. Quarter over quarter, interest expense has decreased largely as a result of the decreased net draw on the Amended Senior Facility throughout 2016 as compared to 2015, thereby reducing interest incurred on outstanding borrowings. Total interest expense relating to the Company's Senior Notes

during the three and six months ended June 30, 2016 is $5.3 million and $10.6 million, respectively, consistent with $5.4 million and $10.6 million in the respective 2015 periods.

Foreign exchange gains and losses
Finance costs for the three and six months ended June 30, 2016 include a net foreign exchange loss of $0.5 million and $1.8 million, respectively (2015 – a gain of $0.2 million and $0.5 million, respectively), primarily related to foreign exchange losses on the Company's USD denominated receivables and cash balances held in Canada. The net foreign exchange loss was driven by a strengthening CAD that occurred in the latter part of the first quarter and into the second quarter of 2016.

Derivative gains and losses
Finance costs for the three and six months ended June 30, 2016, include a net derivative loss of $0.2 million and $2.9 million, respectively, (2015 – net loss of $0.01 million and net gain of $1.6 million, respectively), relating to the Company's foreign currency derivative contracts. As of June 30, 2016, the Company had a financial derivative asset of net $0.01 million and a financial derivative liability of $1.8 million relating to its outstanding derivative contracts (December 31, 2015 – net asset of $2.5 million and liability of $0.09 million, respectively).

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 June 30, 2016, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD$000's	Contract Type	Settlement	Average USDCAD Exchange Rate
July 2016	$20,000	Deliverable Forward	Physical Purchase	$1.2799
October 2016	$10,000	Deliverable Forward	Physical Purchase	$1.3402
January 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3396
February 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3393
March 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3391
Total	$36,000			$1.3065

Period	Notional Call USD$000's	Notional Put USD$000's	Settlement	Average USDCAD Exchange Rate
September 2016	$2,000	$4,000	Physical Purchase	$1.3040
October 2016	$2,000	$4,000	Physical Purchase	$1.3063
November 2016	$2,000	$4,000	Physical Purchase	$1.3110
December 2016	$2,000	$4,000	Physical Purchase	$1.3142
January 2017	$2,000	$4,000	Physical Purchase	$1.3921
February 2017	$2,000	$4,000	Physical Purchase	$1.4250
March 2017	$2,000	$4,000	Physical Purchase	$1.3458
Total	$14,000	$28,000		$1.3426

In addition to the contracts noted above, the Company has also entered into zero-cost collars with the option to sell US$0.6 million on a monthly basis from July 2016 to January 2017, with USDCAD strike prices ranging from $1.1630 to $1.2770 and participation rates ranging from $1.3500 to $1.5000.

Current and Deferred Income Taxes
For the three and six months ended June 30, 2016 and 2015, income tax expense was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Current income tax expense (recovery)	**4,252**	(2,153)	**2,706**	(1,726)
Deferred income tax (recovery) expense	**(1,315)**	495	**(1,736)**	2,500
Total income tax expense (recovery)	**2,937**	(1,658)	**970**	774

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. During the three and six months ended June 30, 2016, the Company recorded an income tax expense of $2.9 million and $1.0 million, respectively, as compared to a recovery of $1.7 million and an expense of $0.8 million in 2015.

The Company is currently under audit by the Canada Revenue Agency (the "CRA") with respect to its conversion from a publicly traded limited partnership to a public corporation on January 1, 2010 (the "Conversion"). The CRA has issued a proposal letter to the Company with respect to its 2010, 2011 and 2012 taxation years, stating its intention to disallow non-capital losses of approximately $57.7 million and capital losses of approximately $18.7 million. While the Company continues to believe its returns were correctly filed and it has not yet received any Notices of Reassessment relating to this matter, it has proposed a settlement offer to the CRA. A current tax expense of $7.0 million has been accrued in the Company's June 30, 2016, condensed consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion. See also "Risks and Uncertainties – Income Tax Matters".

The year-over-year increase in current income tax expense is primarily related to the proposed CRA settlement on the Conversion, which is partially offset by the benefit of Canadian tax loss carry-backs in 2016. The year-over-year decrease in deferred income tax expense is primarily due to a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, including the unrecognized deferred tax asset related to current year US tax losses in 2016.

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 June 30, 2016, the Company had a net draw of $nil on its Amended Senior Facility and had cash on hand of $111.1 million. CES continued to maintain a strong statement of financial position or "balance sheet" as at June 30, 2016, with positive net working capital of $267.2 million (December 31, 2015 - $230.2 million). The increase in working capital from December 31, 2015 is primarily due to the increase of $111.1 million in cash as a result of the completion of the Offering, a $15.1 million reduction in accounts payable, a $4.1 million decline in deferred acquisition consideration payable, and a $3.3 million decrease in dividends payable. These increases to working capital are partially offset by a $68.2 million reduction in accounts receivable, a $15.5 million reduction in inventory, and an $8.1 million reduction in prepaid expenses. In light of the difficult industry market conditions, CES has placed trade credit insurance over most of its 2016 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature. In light of recent bankruptcies in the US, CES has filed claims on this insurance policy in calendar 2016.

Total Current Assets
Total current assets of CES increased from $312.6 million at December 31, 2015 to $326.7 million at June 30, 2016. The increase is primarily due to an increase in cash of $111.1 million, offset by a reduction in accounts receivable by $68.2 million, a reduction in inventory by $15.5 million, a reduction in prepaid expenses by $8.1 million, and a reduction in income taxes receivable of $2.8 million.

Total Long-Term Assets
Year-over-year, total long-term assets of CES decreased by $43.5 million to $575.5 million at June 30, 2016 from $618.9 million at December 31, 2015. The decrease is primarily attributable to the decrease in USD denominated long-term assets on translation as a result of a strengthening CAD that has occurred since December 31, 2015.

Long-Term Financial Liabilities
CES had long-term debt totalling $298.6 million at June 30, 2016, compared to $299.6 million at December 31, 2015, a decrease of $1.0 million. The year-over-year decrease in long-term debt is primarily as a result of the Company repaying all of its borrowings on the Amended Senior Facility during the period. Additional discussion relating to the Company's Amended Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.

At June 30, 2016, long-term debt liabilities were comprised of the following balances:

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

At June 30, 2016, the Company had finance lease liabilities of $10.8 million, net of the current portion of $5.3 million, representing a total decrease of $3.1 million from December 31, 2015. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

$000's	
Less than 1 year	**5,684**
1-5 years	**5,820**
5+ years	**-**
Total lease payments	**11,504**
Amount representing implicit interest	**(676)**
Finance lease obligations	**10,828**
Less: current portion of finance lease obligations	**(5,287)**
Long-term finance lease obligations	**5,541**

During the three and six months ended June 30, 2016, the Company made long-term scheduled debt and lease repayments totalling $2.8 million and $5.0 million, respectively, on its finance leases, vehicle debt, and credit facilities.

Shareholders' Equity
Shareholders' equity declined by $3.3 million from $531.6 million at December 31, 2015 to $528.3 million at June 30, 2016. The decline in shareholders' equity is primarily attributable to a $49.2 million net loss, $6.8 million of dividends declared by the Company during the period, $15.6 million reclassified from contributed surplus for stock-based compensation plans, and a $45.4 million loss in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries. The decrease was primarily offset by the issuance of $89.0 million in shares issued pursuant to the Offering, net of share issuance costs and taxes, $8.8 million in contributed surplus related to stock-based compensation expense, and $0.3 million relating to the issuance of equity under the Company's stock-based compensation plans.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	**Jun 30, 2016**	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Revenue	**97,733**	137,149	164,958	187,757
Gross margin	**15,754**	23,910	24,906	41,258
Net (loss) income [1]	**(25,597)**	(23,593)	(114,402)	6,457
per share– basic	***(0.11)***	*(0.11)*	*(0.52)*	*0.03*
per share– diluted	***(0.11)***	*(0.11)*	*(0.52)*	*0.03*
EBITDAC [2]	**(689)**	6,601	8,473	24,561
per share– basic	**-**	*0.03*	*0.04*	*0.11*
per share– diluted	**-**	*0.03*	*0.04*	*0.11*
Funds Flow From Operations [2]	**(10,488)**	2,338	7,844	25,375
per share– basic	***(0.05)***	*0.01*	*0.04*	*0.12*
per share– diluted	***(0.05)***	*0.01*	*0.04*	*0.11*
Dividends declared	**1,749**	5,079	16,027	18,025
per share	***0.0075***	*0.0230*	*0.0730*	*0.0825*
Shares Outstanding				
End of period	**253,867,856**	222,369,084	220,424,818	219,168,309
Weighted average – basic	**230,573,931**	220,928,336	219,534,188	218,237,459
Weighted average – diluted	**230,573,931**	220,928,336	219,534,188	224,545,092

	Three Months Ended			
($000's, except per share amounts)	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014
Revenue	163,137	233,762	278,672	272,938
Gross margin	36,264	57,231	74,864	77,916
Net income [1]	1,758	13,911	18,816	20,937
per share– basic	*0.01*	*0.06*	*0.09*	*0.10*
per share– diluted	*0.01*	*0.06*	*0.08*	*0.09*
EBITDAC [2]	19,610	41,057	47,562	54,705
per share– basic	*0.09*	*0.19*	*0.22*	*0.26*
per share– diluted	*0.09*	*0.19*	*0.21*	*0.25*
Funds Flow From Operations [2]	15,865	34,764	46,810	37,862
per share– basic	*0.07*	*0.16*	*0.22*	*0.18*
per share– diluted	*0.07*	*0.16*	*0.21*	*0.17*
Dividends declared	17,949	17,848	17,745	17,056
per share	*0.0825*	*0.0825*	*0.0825*	*0.0800*
Shares Outstanding				
End of period	217,816,380	217,037,911	215,512,074	214,157,240
Weighted average – basic	217,442,891	216,131,621	214,875,446	212,194,898
Weighted average – diluted	223,738,234	221,250,593	221,469,050	220,449,815

Notes:
[1] Represents net income attributable to the shareholders of the Company.
[2] Refer to the "Non-GAAP Measures" for further detail.

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 June 30, 2016, the Company had net working capital of $267.2 million (December 31, 2015 - $230.2 million). The increase in working capital from December 31, 2015 is primarily due to the increase of $111.1 million in cash as a result of the completion of the Offering, a $15.1 million reduction in accounts payable, a $4.1 million decline in deferred acquisition consideration payable, and a $3.3 million decrease in dividends payable. These increases to working capital are partially offset by a $68.2 million reduction in accounts receivable, a $15.5 million reduction in inventory, and an $8.1 million reduction in prepaid expenses.

Amended Senior Facility

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

At June 30, 2016, the Company had a net draw of $nil on its Amended Senior Facility and capitalized transaction costs pertaining to the Amended Senior Facility of $0.7 million (December 31, 2015 – net draw of $0.4 million, net of capitalized transaction costs of $0.5 million). The maximum available draw on the Amended Senior Facility at June 30, 2016, was $113.6 million (December 31, 2015 - $200.0 million), subject to maintaining the Senior Funded Debt to trailing EBITDA ratio as described below. As at the date of this MD&A, the Company had a net draw of $nil on its Amended Senior Facility and a cash balance of approximately $42.0 million.

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

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

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

- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added

to EBITDA. An additional amount of $3.0 million was permitted to be added to EBITDA on a one time basis for the quarter ended December 31, 2015.

- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.
- Senior Funded Debt is defined as Total Net Funded Debt minus the principal amount owing on the Company's Senior Notes.

The above noted definitions are not recognized under IFRS and are provided strictly for the purposes of the Company's Amended Senior Facility covenant calculations. EBITDA, as defined in the Amended Senior Facility, differs from Adjusted EBITDAC as defined under Non-GAAP Measures as EBITDA excludes bad debt expense and non-recurring transaction costs.

As at June 30, 2016, 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:

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

Senior Notes
At June 30, 2016, the Company had $300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2015 - $300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The 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.

Other Indebtedness
In addition to the above, CES has non-bank vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.18%, and have termination dates ranging from July 2016 through April 2021. At June 30, 2016, outstanding vehicle and equipment finance lease obligations totalled $10.8 million as compared to $13.9 million at December 31, 2015.

The following table details the remaining contractual maturities of the Company's financial liabilities as of June 30, 2016:

	Payments Due By Period [1]					
$000's	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	45,102	-	-	-	-	**45,102**
Dividends payable [2]	635	-	-	-	-	**635**
Income taxes payable	-	892	-	-	-	**892**
Deferred acquisition consideration	5,791	-	3,800	-	-	**9,591**
Senior Notes [4]	-	-	-	300,000	-	**300,000**
Interest on Senior Notes	-	22,125	22,125	44,250	-	**88,500**
Finance lease obligations at floating interest rates [3]	1,168	4,119	3,260	2,281	-	**10,828**
Office operating leases	1,221	5,202	5,305	7,628	3,244	**22,600**
Total	53,917	32,338	34,490	354,159	3,244	**478,148**

Notes:
[1] *Payments denominated in foreign currencies have been translated using the appropriate June 30, 2016 exchange rate*
[2] *Dividends declared as of June 30, 2016*
[3] *Finance lease obligations reflect principal payments and excludes any associated interest portion*
[4] *The Senior Notes are due on April 17, 2020*

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

Cash Flows from Operating Activities

For the three months ended June 30, 2016, cash flow from operating activities was an inflow of $24.3 million compared to $117.3 million during the three months ended June 30, 2015, with the decrease 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 June 30, 2016, Funds Flow From Operations was an outflow of $10.5 million, compared to an inflow of $15.9 million for the three months ended June 30, 2015. The decline in Funds Flow from Operations from Q2 2015 to Q2 2016 is largely as a result of the decrease in activity in 2016 and resulting impact on net operating cash flows during the second quarter.

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Cash provided by operating activities	**24,274**	117,323	**61,989**	174,535
Adjust for:				
Change in non-cash operating working capital	**(34,762)**	(101,458)	**(70,139)**	(123,906)
Funds Flow From Operations [1]	**(10,488)**	15,865	**(8,150)**	50,629

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*

Cash Flows from Investing Activities
For the three months ended June 30, 2016, net cash outflows from investing activities totalled $8.8 million, a decrease from the $11.8 million outflow from investing activities during the three months ended June 30, 2015. Investment in property and equipment has declined in Q2 2016 compared to Q2 2015 by $4.1 million, offset by cash outflows of $2.3 million related to the payment of deferred consideration payable.

For the three months ended June 30, 2016, $8.3 million was spent on property and equipment (net of $1.3 million in vehicle finance leases). During the quarter, CES had $1.0 million of additions related to Maintenance Capital and $8.6 million of additions related to Expansion Capital including vehicle financing. Notable expansion additions during the quarter ended June 30, 2016 include: $3.7 million for warehouse and facilities, $2.1 million for processing equipment, $1.0 million for machinery and field equipment, $0.7 million in vehicles, $0.7 million in trucks and trailers, and $0.4 million for other expansion additions.

Expansion Capital expenditures in Q2 2016 were primarily related to the continued expansion of the JACAM and PureChem facilities, the completion of the Superior Weighting barite grinding facility, and costs to complete the new laboratory facilities in Calgary, Alberta and in both Houston and Midland, Texas all of which will provide services to the drilling fluids, frac chemical, and production and specialty chemicals businesses.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Expansion Capital [1]	**8,552**	13,105	**17,609**	26,639
Maintenance Capital [1]	**984**	781	**1,367**	998
Total investment in property and equipment	**9,536**	13,886	**18,976**	27,637
Asset financing and leases	**(1,287)**	(1,319)	**(2,390)**	(1,833)
Capital expenditures	**8,249**	12,567	**16,586**	25,804
Change in non-cash investing working capital	**79**	(186)	**501**	1,114
Cash used for investment in property and equipment	**8,328**	12,381	**17,087**	26,918

Notes:
[1] Refer to the "Operational Definitions" for further detail.

Historically, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2016, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately $30.0 million, of which an estimated $5.0 million will be maintenance capital additions, and an estimated $25.0 million will be for expansion capital additions. The expected expansion capital expenditures are weighted to the back half of 2016 and a portion can be deferred into 2017.

Cash Flows from Financing Activities
For the three month period ended June 30, 2016, cash flows from financing activities totalled a cash inflow of $83.8 million compared to a cash outflow of $55.8 million during the comparative prior year period. This year-over-year increase in cash flows from financing activities is primarily due to the Company receiving $87.9 million in net proceeds relating to the completion of the Offering, offset by lower net drawings made on the Amended Senior Facility and the reduced shareholder dividend during Q2 2016 when compared to Q2 2015.

CES calculated Distributable Earnings based on Funds Flow From Operations and the Payout Ratio based on the level of dividends declared as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2016**	2015	**2016**	2015
Cash provided by operating activities	**24,274**	117,323	**61,989**	174,535
Adjust for:				
Change in non-cash operating working capital	**(34,762)**	(101,458)	**(70,139)**	(123,906)
Funds Flow From Operations [1]	**(10,488)**	15,865	**(8,150)**	50,629
less: Maintenance Capital [2]	**(984)**	(781)	**(1,367)**	(998)
Distributable Earnings [1]	**(11,472)**	15,084	**(9,517)**	49,631
Dividends declared	**1,749**	17,949	**6,828**	35,797
Payout Ratio [1]	**(15%)**	119%	**(72%)**	72%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Refer to the "Operational Definitions" for further detail.

Distributable Earnings were negative $11.5 million for the three months ended June 30, 2016, compared with $15.1 million for the same period in 2015. During the three months ended June 30, 2016, CES declared monthly dividends totalling $0.0075 per share for the quarter. During the second quarter of 2016, the Payout Ratio was (15%) as compared to 72% for the second quarter of 2015.

Dividend Policy

In response to the deteriorating industry conditions and in order to preserve balance sheet strength CES reduced its monthly dividend to $0.0025 per share effective February 2016. On an annualized basis, the revised dividend is $0.03 per common share. CES estimates that it will conserve approximately $58.0 million in cash in 2016 over 2015 based on the new dividend level. CES will retain the shareholders' cash to preserve balance sheet strength and provide liquidity to fund potential growth initiatives.

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

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

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 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 June 30, 2016, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on August 15, 2016, for shareholders of record on July 29, 2016. With these dividend reductions, CES is responding to the low oil price environment and preserving the strength of the Company's balance sheet. CES will continue to be protective of its balance sheet and prudent with its cash dividend going forward, particularly if the current low oil price environment continues.

Shareholders' Equity
As of June 30, 2016, CES had a total of 253,867,856 common shares outstanding. As of the date of this MD&A, CES had a total of 261,199,080 common shares outstanding.

Stock-based Compensation
As at June 30, 2016, a total of 25,386,786 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 11,442,843 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At June 30, 2016, a total of 11,333,744 Share Rights were outstanding (December 31, 2015 – 11,248,244) at a weighted average exercise price of $6.71 (assuming all SRIP's are exercised at their respective original exercise price) of which 5,031,077 were exercisable. As of the date of this MD&A, an aggregate of 11,186,744 Share Rights remaining outstanding, of which 4,938,077 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At June 30, 2016, a total of 2,610,162 Restricted Share Units were outstanding (December 31, 2015 – 4,892,227) at a weighted average issuance price of $6.12, none of which were vested. As of the date of this MD&A, an aggregate of 2,526,735 Restricted Share Units remain outstanding, none of which have vested.

Commitments
At June 30, 2016, CES had the following additional commitments not included as liabilities on its statement of financial position:

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

financial statements and the reported amounts of revenue and expenses for the period.

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2015, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2015.

RECENT ACCOUNTING PRONOUNCEMENTS

There were no new or amended accounting standards or interpretations adopted during the six months ended June 30, 2016. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures ("DC&P")

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

Internal Controls over Financial Reporting ("ICFR")

Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes to CES' internal controls over financial reporting during the three and six months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2015 Annual Report, CES' Annual Information Form dated March 10, 2016 in respect of the year ended December 31, 2015, and CES' Information Circular in respect to the June 16, 2016 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

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. Crude prices have continued to be depressed in 2016, with West Texas Intermediate ("WTI") reaching a low in February 2016 of USD$26.05/bbl, a price that was last seen in May 2003. 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 2017 and 2018 are trading around USD$45/bbl to USD$50/bbl which is far below the USD$100/bbl pricing enjoyed by operators in July 2014. In addition, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing 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. With gas in storage at all-time highs North America has most quoted spot prices trading around USD$2.50 per MMBtu, and the futures curve for Nymex Henry Hub is trading around USD$3.25 per MMBtu for 2017 and 2018.

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 2016 and the return to activity out of Spring break-up has been muted. In the US, drilling activity, bottomed in Q2, and there has been a modest increase since then but recent pullback in WTI may stall any recovery.

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 equity through the Offering completed in June 2016, since the fall of 2014 there has been a retreat in the energy equity markets and in particular energy related debt markets as a result of low commodity prices. As 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. However, the continued deterioration of the commodity price environment and the corresponding impact on the demand for oilfield services has caused a number of oilfield service companies to seek covenant relief from their lenders. In Q1 2016 to address weaker upstream activity expected in 2016, CES successfully completed an amendment to its existing Senior Facility resulting in relief of certain covenants to provide the financial flexibility required to weather this period of low commodity prices. The Company's revised Senior Funded Debt to EBITDA and Interest Coverage ratios are sensitive to reduced EBITDAC resulting from the prolonged decline in oilfield services activity, and failing to comply with these covenants could lead to restrictions on the Company's ability to access the Amended Senior Facility in the future. At June 30, 2016, CES is in compliance with terms and covenants of its lending agreements.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and fourth quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. In 2016, spring break-up in Canada came early once again, due to financial constraints of our customers, and likely will outlast the typical weather constraints on a resumption of drilling activity. As the drilling fluids business expands in the US, and as the production focused and infrastructure focused chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

The ability of CES to sell and expand its services will also depend upon the ability to attract and retain qualified personnel as needed. 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. In light of current market conditions, CES has placed trade credit insurance over the majority of its 2016 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature.

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 changes to its royalty regime. Initial indications are that the changes will have a slightly positive impact on oil and gas producers in the province once they are enacted. However, the exact effect and outcome of the revised royalty regime 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 Company and its various subsidiaries are subject to corporate income and other taxation in various federal, provincial and state jurisdictions in Canada, the US, and Luxembourg. For the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audits and reassessments by the various taxation authorities and where applicable, the Company adjusts previously recorded tax expense to reflect audit adjustments. We believe we have adequately provided for all income tax obligations. However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities 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 resulted in the unitholders of the Partnership becoming shareholders of CES with no changes to the underlying business operations. CES undertook the Conversion as the limited partnership structure restricted the ability for CES to grow in the United States. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Income Tax Act (Canada), could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation.

In 2014, the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which stated its intent to challenge the Canadian tax consequences of the Conversion. The CRA's position is based on the acquisition of control rules and

the general anti-avoidance rules in the Income Tax Act (Canada). The CRA's proposed reassessment sought to disallow certain tax pools, in which CES would have been obligated to remit cash taxes of approximately $16.0 million for the three taxation years, plus approximately $4.3 million in interest to June 30, 2016. While the Company continues to believe its returns were correctly filed and it has not yet received any Notices of Reassessment relating to this matter, it has proposed a settlement offer to the CRA. A current tax expense of $7.0 million has been accrued in the Company's June 30, 2016, condensed consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion.

Reference should be made to CES' Annual Information Form dated March 10, 2016 for the year ended December 31, 2015, 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.

OUTLOOK

CES' second quarter 2016 results are reflective of the extremely difficult industry conditions with reduced activity levels lowering revenue and price discounting resulting in margin compression. CES remains cautious with its outlook with no clear visibility to a turnaround in the current low oil price and weak natural gas price environment. The end result is that until commodity prices improve, CES sees weak 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. In addition, CES has experienced an increase in bad debt expense, which is seen as likely to continue as some customers are forced into formal restructurings and bankruptcies. To address this CES has secured trade credit insurance over the majority of its US receivables, and will manage all its counter party credit risks with extreme caution. In addition, CES has undertaken significant steps to further rationalize its drilling fluids cost structure and will take additional appropriate actions as necessary. CES 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. 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.

Despite the current operating challenges, CES' balance sheet is positioned to weather the current downturn in oilfield activity. CES executed a successful, over-subscribed $92.0 million equity raise in June and after funding the Catalyst Acquisition, we have cash on the balance sheet, a net $nil draw on our Amended Senior Facility, and our $300 million of Senior Notes are not due until April 2020. Cash interest costs, maintenance capital and dividends in 2016 should be fully funded from EBITDAC.

CES will continue to assess M&A opportunities that will improve CES' competitive position and enhance profitability. Any acquisitions must meet CES' stringent financial and operational metrics. In its core businesses, CES will focus on 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.

ADDITIONAL INFORMATION

Additional information related to CES can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Information is also accessible on CES's web site at www.canadianenergyservices.com.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

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