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 consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp. ("CES" or the "Company") for the years ended December 31, 2015 and 2014, and CES' 2015 Annual Information Form. This MD&A is dated March 10, 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: future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; 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 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; the sufficiency of liquidity and capital resources to meet long-term payment obligations; potential M&A opportunities; expectations regarding CES' ability to successfully negotiate with its banking syndicate for relief of certain covenants under the Senior Facility on satisfactory terms and within CES' anticipated timing; 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 for completion of expansions at JACAM facilities; management's opinion of the impact of any potential litigation or disputes; potential outcomes of the CRA's intent to challenge the Canadian tax consequences of the Conversion; the application of critical accounting estimates and judgements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies; CES' ability to increase or maintain its market share, including expectations that PureChem and JACAM will increase market share in the oilfield consumable chemical market; supply and demand for CES' products and services, including expectations for growth in CES' production and speciality chemical sales and expected growth in the consumable chemicals market; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels; commodity prices and 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 Sialco Acquisition; expectations regarding the performance or expansion of CES' operations; 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 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 recent fluctuations in value of the U.S. dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to 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.

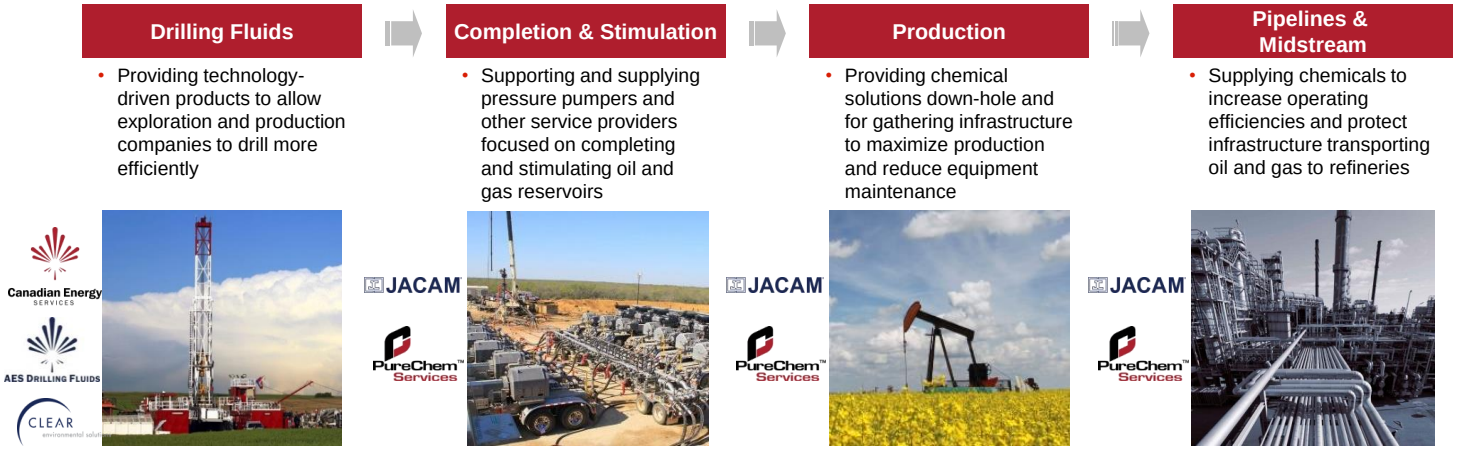
Without limiting the foregoing, the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

THREE-FOR-ONE STOCK SPLIT

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

BUSINESS OF CES

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

Vertically Integrated Manufacturing

JACAM · Superior Weighting Products · Sialco Materials Ltd · PureChem Services

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") and JACAM Chemicals ("JACAM").

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, PureChem and Sialco brands are vertically integrated manufacturers of advanced specialty chemicals. In addition to being basic manufacturers of chemicals, JACAM 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. EQUAL operates from two terminals and yards located in Edson, Alberta and Carlyle, Saskatchewan.

Led by JACAM's state of the art laboratory in Sterling, Kansas, CES operates seven separate lab facilities across North America: two in Houston, Texas; and one in each of Midland, Texas; 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 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.

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 December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Net (loss) income	**(114,402)**	18,816	**(92,276)**	67,704
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**8,577**	6,867	**31,830**	23,617
Depreciation on property and equipment in G&A	**1,194**	684	**3,726**	2,286
Amortization on intangible assets in G&A	**4,983**	4,523	**19,438**	14,721
Interest expense, net of interest income	**5,754**	6,245	**23,406**	22,023
Amortization of capitalized deferred financing costs	**317**	194	**1,311**	1,332
Current income tax (recovery) expense	**(5,351)**	(5,108)	**(13,494)**	10,583
Deferred income tax (recovery) expense	**(53,422)**	10,285	**(46,453)**	13,941
Stock-based compensation	**6,996**	5,102	**25,979**	21,071
Unrealized foreign exchange (gain) loss	**(210)**	(155)	**(205)**	189
Unrealized derivative (gain) loss	**(1,081)**	267	**(2,914)**	383
Loss (gain) on disposal of assets	**289**	(158)	**151**	(678)
Impairment of goodwill	**154,829**	-	**154,829**	-
Other income	**-**	-	**(11,628)**	-
EBITDAC	**8,473**	47,562	**93,700**	177,172

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 estimated number of wells or oilfield sites serviced by CES in the referenced period with production and specialty chemicals.

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended December 31,			Year Ended December 31,		
($000's, except per share amounts)	**2015**	2014	% Change	**2015**	2014	% Change
Revenue	**164,958**	278,672	(41%)	**749,614**	972,705	(23%)
Gross margin	**24,906**	74,864	(67%)	**159,659**	265,491	(40%)
as a percentage of revenue	**15%**	27%		**21%**	27%	
Cash Gross Margin [1]	**33,772**	81,573	(59%)	**191,640**	288,430	(34%)
as a percentage of revenue	**20%**	29%		**26%**	30%	
(Loss) income before taxes	**(173,415)**	24,213	(816%)	**(152,223)**	92,579	(264%)
per share – basic [2]	***(0.79)***	*0.11*	*(818%)*	***(0.70)***	*0.44*	*(259%)*
per share - diluted [2]	***(0.79)***	*0.11*	*(818%)*	***(0.70)***	*0.43*	*(263%)*
Net (loss) income [3]	**(114,402)**	18,816	(708%)	**(92,276)**	67,704	(236%)
per share – basic [2]	***(0.52)***	*0.09*	*(678%)*	***(0.42)***	*0.33*	*(227%)*
per share - diluted [2]	***(0.52)***	*0.08*	*(750%)*	***(0.42)***	*0.31*	*(235%)*
EBITDAC [1]	**8,473**	47,562	(82%)	**93,700**	177,172	(47%)
per share – basic [2]	***0.04***	*0.22*	*(82%)*	***0.43***	*0.85*	*(49%)*
per share - diluted [2]	***0.04***	*0.21*	*(81%)*	***0.43***	*0.82*	*(48%)*
Funds Flow From Operations [1]	**7,844**	46,810	(83%)	**83,848**	144,962	(42%)
per share – basic [2]	***0.04***	*0.22*	*(82%)*	***0.38***	*0.70*	*(46%)*
per share - diluted [2]	***0.04***	*0.21*	*(81%)*	***0.38***	*0.67*	*(43%)*
Dividends declared	**16,027**	17,745	(10%)	**69,849**	63,224	10%
per share [2]	***0.0730***	*0.0825*	*(12%)*	***0.3205***	*0.3025*	*6%*

Notes:
[1] Refer to "Non-GAAP Measures" for further detail.
[2] Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.
[3] Represents net (loss) income attributable to the shareholders of the Company.

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and twelve months ended December 31, 2015, in comparison to the three and twelve months ended December 31, 2014, for CES are as follows:

- Reflective of the increasingly challenging oilfield market in North America, EBITDAC for the three months ended December 31, 2015 was $8.5 million as compared to $47.6 million for the three months ended December 31, 2014, representing a decrease of $39.1 million or 82%. During the fourth quarter of 2015, the Company recorded a number of one-time items considered to be non-recurring that negatively impacted EBITDAC:
    - Within cost of sales, the Company recorded $5.6 million of inventory write-downs as certain products, including invert, were revalued to net realizable value or written off completely to reflect current prices.
    - In light of current market conditions, the Company recorded $1.4 million in additional restructuring costs and bad debt allowances through general and administrative expenses.
    - As a result of certain strategic initiatives in the fourth quarter, including the Sialco Acquisition and some tax and internal restructuring, the Company incurred $0.9 million in non-recurring transaction costs, professional fees and other within general and administrative expenses.

  Removing the impact of these one-time items, the Company's Adjusted EBITDAC for the three months ended December 31, 2015 was $16.4 million. For the year ended December 31, 2015, EBITDAC was $93.7 million (Adjusted EBITDAC $101.6 million) as compared to $177.2 million in 2014. For both comparative periods, 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 $165.0 million during the three months ended December 31, 2015, compared to $278.7 million for the three months ended December 31, 2014, a decrease of $113.7 million or 41%. Year-to-date, revenue totaled $749.6 million, compared to $972.7 million for the year ended December 31, 2014, representing a decrease of $223.1 million or 23% on a year-over-year basis. Revenue for both Q4 and year-to-date was negatively affected by a steep drop-off 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 December 31, 2015 was $109.9 million compared to $178.5 million for the three months ended December 31, 2014, a decrease of $68.6 million or 38%. Although JACAM's Treatment Points rose in Q4 2015 in comparison to Q4 2014, this growth was offset by a decline in frac related chemical sales, and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs. US revenues in the quarter were also negatively impacted by lower activity levels and an increasingly difficult pricing environment for the drilling fluids business. For the year ended December 31, 2015, US revenues were $514.9 million compared to $599.7 million for the same period in 2014, representing a decrease of $84.8 million, or 14%. The year-to-date revenue numbers were down primarily as a result of the increasingly unfavourable pricing environment and the rapid decline in drilling fluids activity, which offset the growth experienced at JACAM. For both the three and twelve months ended December 31, 2015, the Company's US revenues were also positively impacted on translation by weakness in CAD versus USD over the comparable periods in 2014.

- Revenue generated in Canada for the three months ended December 31, 2015 was $55.0 million compared to $100.2 million for the three months ended December 31, 2014, a decrease of $45.2 million or 45%. PureChem continued to gain market share in Canada and increased Treatment Points during the quarter, however these gains were offset by price discounting and weaker frac related chemical sales. CES' drilling fluids business experienced a weak recovery out of spring break-up in 2015 as activity levels never recovered to prior year levels and was capped off by a very weak Q4. The drilling fluids business experienced intensifying pricing pressure as the year unfolded and this pressure has continued into 2016. For the year ended December 31, 2015, revenue in Canada was $234.7 million compared to $373.0 million in the same period in 2014, representing a decline of $138.3 million or 37%. Year-to-date, revenue was negatively affected by the steep drop-off in drilling activity and continued pricing pressure. Offsetting this was year-over-year growth in production and specialty chemical sales as PureChem continued to grow and take market share in Canada.

- For the three month period ended December 31, 2015, CES recorded Cash Gross Margin of $33.8 million or 20% of revenue, compared to Cash Gross Margin of $81.6 million or 29% of revenue generated in the same period last year. Year-to-date, CES recorded Cash Gross Margin of $191.6 million or 26% of revenue compared to $288.4 million or 30% of revenue generated in the same period in 2014. Negatively impacting Cash Gross Margin in both 2015 periods are the non-recurring inventory items noted above. Further, the decline in Cash Gross Margin for both periods is a result of the margin compression experienced in both Canada and US. CES responded to falling activity levels at the drill-bit by rationalizing costs and headcount, but these cost reduction initiatives did not completely offset the price compression experienced as a result of the discounting provided to customers across all business units. In addition, the Canadian business' Cash Gross Margin was further negatively impacted by cost inflation of all USD inputs as CAD weakened considerably throughout 2015. In the current commodity price environment, these higher costs could not be passed on to customers. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.

- During the three months ended December 31, 2015, the Company recorded a goodwill impairment of $154.8 million with respect to the Company's two cash generating units ("CGU") as determined under IFRS (2014 - $nil). The Company's impairment analysis indicated that the recoverable amount of the net assets for each CGU did not exceed its respective carrying value and, therefore, goodwill allocated to the Canadian Operations CGU was impaired by $39.1 million and goodwill allocated to the US Operations CGU was impaired by $115.7 million. The impairment charges were internally allocated for accounting purposes to the CES and AES drilling fluids divisions.

- During the year ended December 31, 2015, the Company recorded other income of $11.6 million related to a recovery of deferred consideration payable associated with the Venture Mud acquisition completed in July 2013.

- CES recorded a net loss of $114.4 million for the three month period ended December 31, 2015 as compared to $18.8 million in net income the prior year. CES recorded net (loss) income per share of ($0.52) (($0.52) diluted) for the three

months ended December 31, 2015 versus $0.09 ($0.08 diluted) in Q4 2014. For the year-to-date period, CES recorded a net loss of $92.3 million compared to net income of $67.7 million in 2014. CES recorded net (loss) income per share of ($0.42) (($0.42) diluted) for the year ended December 31, 2015 versus $0.33 ($0.31 diluted) in 2014. The respective year-over-year decrease in net income resulted from the factors discussed above, and was further impacted by higher stock-based compensation expense and depreciation and amortization. These increased costs were offset by $11.6 million in other income for the year ended December 31, 2015 related to the recovery of deferred consideration payable, as well as significant current and deferred tax recoveries for both periods.

- On September 30, 2015, the Company completed an amendment to its existing Senior Facility ("Amended Senior Facility") which extended the term to maturity by one year to September 28, 2018. The Company had a net draw of $0.4 million on the Amended Senior Facility at December 31, 2015, net of capitalized transaction costs of $0.5 million (December 31, 2014 – $60.9 million, net of capitalized transaction costs of $0.7 million). The maximum available draw on the Amended Senior Facility at December 31, 2015, was $200.0 million (December 31, 2014 - $200.0 million). As at the date of this MD&A, the Company had a net draw of $nil on the Amended Senior Facility and a cash balance of approximately $20 million. At December 31, 2015, CES is in compliance with terms and covenants of its lending agreements; however, with the expectation that oilfield services activity will remain low throughout 2016, the Company is in discussions with its banking syndicate seeking relief of certain covenants in the Amended Senior Facility. Further discussion on the Amended Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.

- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $230.2 million as at December 31, 2015 (December 31, 2014 – $307.1 million).

- During the fourth quarter of 2015, CES declared monthly dividends totalling $0.073 per share. This compares to $0.0825 per share for the same period in 2014. During the fourth quarter of 2015, the Company's Payout Ratio averaged 221% as compared to 41% in Q4 2014. Year-to-date, the Company's Payout Ratio averaged 86% as compared to 46% in 2014. In an effort to preserve the Company's balance sheet strength in the current low commodity price environment, the Company has reduced the monthly declared dividend amount from $0.0275 per share in November 2015 to $0.0025 per common share in February 2016. The reduced dividend will conserve approximately $66.0 million on an annualized basis. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

- On December 9, 2015, CES completed the strategic acquisition of all outstanding shares of Sialco Materials Limited ("Sialco"), a specialty chemical manufacturing company located in Delta, BC. The Company also acquired the land and building that Sialco operated on from 0697983 B.C. Ltd, via a real property purchase agreement. These acquisitions are collectively referred to as the Sialco Acquisition. The Sialco Acquisition further vertically integrates the Company with another state-of-the-art high temperature chemical reacting and manufacturing facility. The acquisition also compliments the PureChem and JACAM business units and will augment product lines and capabilities, in particular with some industry leading frac related chemistries.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000's, except per share amounts)	**2015**	2014	$ Change	% Change
Revenue	**164,958**	278,672	(113,714)	(41%)
Cost of sales	**140,052**	203,808	(63,756)	(31%)
Gross margin	**24,906**	74,864	(49,958)	(67%)
Gross margin percentage of revenue	**15%**	27%		
General and administrative expenses	**41,055**	43,549	(2,494)	(6%)
Finance costs	**2,437**	7,102	(4,665)	(66%)
Goodwill impairment	**154,829**	-	154,829	100%
(Loss) income before taxes	**(173,415)**	24,213	(197,628)	(816%)
Current income tax recovery	**(5,351)**	(5,108)	(243)	5%
Deferred income tax (recovery) expense	**(53,422)**	10,285	(63,707)	(619%)
Net (loss) income	**(114,642)**	19,036	(133,678)	(702%)
Less: net (loss) income attributable to non-controlling interest	**(240)**	220	(460)	(209%)
Net (loss) income attributable to shareholders of the Company	**(114,402)**	18,816	(133,218)	(708%)
Net (loss) income per share – basic [1]	***(0.52)***	*0.09*	*(0.61)*	*(678%)*
Net (loss) income per share – diluted [1]	***(0.52)***	*0.08*	*(0.60)*	*(750%)*
EBITDAC [2]	**8,473**	47,562	(39,089)	(82%)

Common Shares Outstanding	**2015**	2014	% Change
End of period [1]	**220,424,818**	215,512,074	2%
Weighted average			
- basic [1]	**219,534,188**	214,875,446	2%
- diluted [1]	**219,534,188**	221,469,050	(1%)

Notes:
[1] Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.
[2] Refer to the "Non-GAAP Measures" for further detail.
[3] Includes long-term portion of the deferred acquisition consideration, the Amended Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.
[4] Represents shareholders' equity attributable to the shareholders of the Company.

	Years Ended December 31,			
($000's, except per share amounts)	**2015**	2014	$ Change	% Change
Revenue	**749,614**	972,705	(223,091)	(23%)
Cost of sales	**589,955**	707,214	(117,259)	(17%)
Gross margin	**159,659**	265,491	(105,832)	(40%)
Gross margin percentage of revenue	**21%**	27%		
General and administrative expenses	**151,623**	148,572	3,051	2%
Finance costs	**17,058**	24,340	(7,282)	(30%)
Goodwill impairment	**154,829**	-	154,829	100%
Other income	**(11,628)**	-	(11,628)	(100%)
(Loss) income before taxes	**(152,223)**	92,579	(244,802)	(264%)
Current income tax (recovery) expense	**(13,494)**	10,583	(24,077)	(228%)
Deferred income tax (recovery) expense	**(46,453)**	13,941	(60,394)	(433%)
Net (loss) income	**(92,276)**	68,055	(160,331)	(236%)
Less: net income attributable to non-controlling interest	-	351	(351)	(100%)
Net (loss) income attributable to shareholders of the Company	**(92,276)**	67,704	(159,980)	(236%)
Net (loss) income per share – basic [1]	***(0.42)***	*0.33*	*(0.75)*	*(227%)*
Net (loss) income per share – diluted [1]	***(0.42)***	*0.31*	*(0.73)*	*(235%)*
EBITDAC [2]	**93,700**	177,172	(83,472)	(47%)

Common Shares Outstanding	**2015**	2014	% Change
End of period [1]	**220,424,818**	215,512,074	2%
Weighted average			
- basic [1]	**217,846,960**	208,191,330	5%
- diluted [1]	**217,846,960**	216,191,326	1%

Notes:
[1] *Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.*
[2] *Refer to the "Non-GAAP Measures" for further detail.*

Revenue and Operating Activities
CES generated revenue of $165.0 million during the three months ended December 31, 2015, compared to $278.7 million for the three months ended December 31, 2014, a decrease of $113.7 million or 41%. Year-to-date, revenue totaled $749.6 million, compared to $972.7 million for the year ended December 31, 2014, representing a decrease of $223.1 million or 23% on a year-over-year basis.

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

	Revenue			
	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Canada	**55,031**	100,217	**234,692**	373,002
United States	**109,927**	178,455	**514,922**	599,703
Total	**164,958**	278,672	**749,614**	972,705

Revenue generated in Canada for the three months ended December 31, 2015 decreased by $45.2 million or 45% compared to the three months ended December 31, 2014, from $100.2 million to $55.0 million. For the year ended December 31, 2015, revenue in Canada was $234.7 million compared to $373.0 million in the same period in 2014, representing a decline of $138.3 million or 37%. PureChem has continued to gain market share in Canada in production chemicals as Canadian Treatment Points

have increased for both comparative periods, however these gains have been offset by price discounting and weaker frac related chemical sales. In line with industry metrics, CES' drilling fluids business experienced a weak recovery out of spring break-up in 2015 as activity levels never recovered to prior year levels and was capped off by a very weak Q4. The drilling fluids business experienced intensifying pricing pressure as the year unfolded and this pressure has continued into 2016. As further outlined in the table below, industry rig counts were down 56% from Q4 2014 to Q4 2015 and down 50% from the year ended December 31, 2014 compared to 2015. Correspondingly, the Company saw a 60% decline in Canadian Operating Days from Q4 2014 to Q4 2015 and a decline of 51% for the year-to-date comparative period. Despite the fall in drilling activity, the Company maintained its Canadian Market share at 34% in Q4 2015 and 34% year-to-date, compared to 35% in Q3 2014 and 34% for the year ended December 31, 2014. CES expects to maintain its leading market share but future Canadian Market Share will continue to fluctuate with the rapidly changing rig count environment that is being driven by volatility in our customers' risk appetite and spending levels.

Included in revenue generated in Canada for the three and twelve months ended December 31, 2015, is $1.2 million and $6.9 million, respectively (2014 – $4.8 million and $19.0 million, respectively) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business is levered to drilling activity and as a result, also experienced a year-over-year drop in revenue which has been exacerbated as operators have cut back on all non-core spending 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 December 31, 2015, decreased by $68.6 million or 38% compared to the three months ended December 31, 2014, from $178.5 million to $109.9 million. Fourth quarter revenues in the US were negatively affected by reduced industry rig counts and continued intense pricing pressure from customers. During Q4 2015, customers continued to pull back on spending and activity in response to lower commodity prices. US average industry rig count declined 61% from 1,855 in Q4 2014 to 724 in Q4 2015 and US Operating Days were down 56% and 38% for the comparable periods. Despite the fall in industry activity and US Operating Days, the Company's US Market Share was 10% during the three months ended December 31, 2015, an increase from 9% in the comparable period in 2014. Although JACAM's estimated Treatment Points rose by 15% in Q4 2015 in comparison to Q4 2014, this growth was offset by a decline in frac related chemical sales, and continued price discounting on all products as customers are increasingly focused on managing near-term cash lifting costs.

For the year ended December 31, 2015, US revenues were $514.9 million compared to $599.7 million for the same period in 2014, representing a decrease of $84.8 million, or 14%. The year-to-date revenue numbers were down primarily as a result of the steep decline in drilling activity in 2015 and price discounting across all US operations.

A summary of rig counts and Operating Days for the three and twelve months ended December 31, 2015, is as follows:

	Three Months Ended December 31,			Year Ended December 31,		
	2015	2014	% Change	**2015**	2014	% Change
Canadian industry rig count [(1)]	**168**	384	(56%)	**184**	370	(50%)
US industry rig count [(2)]	**724**	1,855	(61%)	**941**	1,809	(48%)

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 December 31,			Year Ended December 31,		
	2015	2014	% Change	**2015**	2014	% Change
Canada	**4,843**	12,198	(60%)	**22,333**	45,377	(51%)
US	**6,805**	15,465	(56%)	**34,366**	55,641	(38%)
Total Operating Days [(1)]	**11,648**	27,663	(58%)	**56,699**	101,018	(44%)

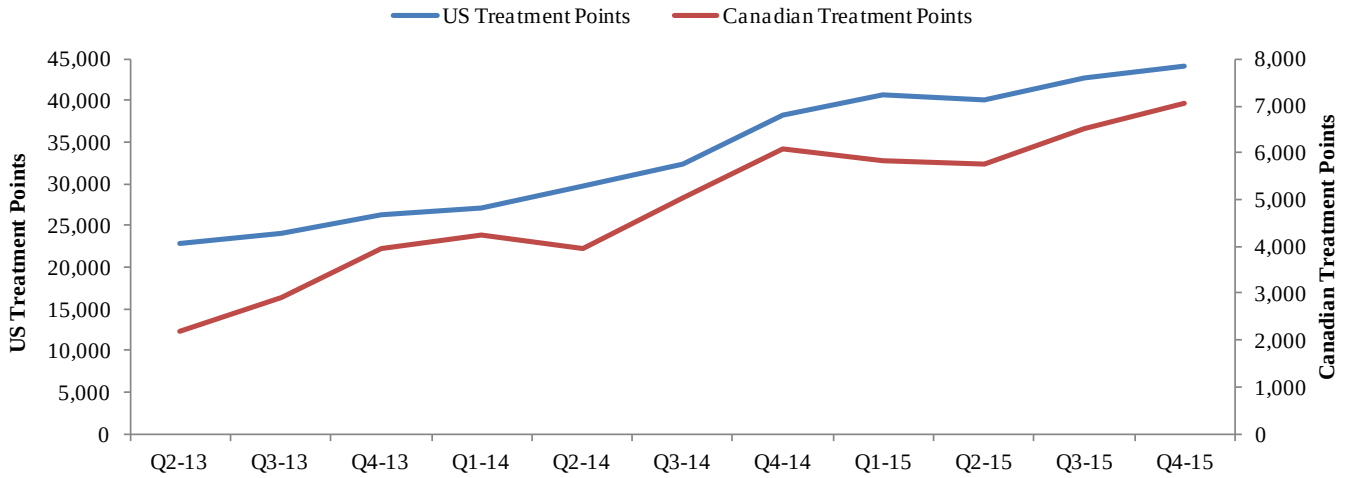
Notes:
[1] Refer to "Operational Definitions" for further detail.

The following table summarizes estimated Treatment Points during the three and twelve months ended December 31, 2015 as compared to the same periods in 2014:

	Three Months Ended December 31,			Year Ended December 31,		
	2015	2014	% Change	**2015**	2014	% Change
Canada	**7,057**	6,093	16%	**25,173**	19,290	30%
US	**44,149**	38,300	15%	**167,512**	127,515	31%
Total Treatment Points [(1)]	**51,206**	44,393	15%	**192,685**	146,805	31%

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

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



For the three and twelve months ended December 31, 2015, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
Top five customers as a % of total revenue	**23%**	26%	**28%**	26%
Top customer as a % of total revenue	**9%**	12%	**14%**	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 December 31, 2015, CES recorded gross margin of $24.9 million or 15% of revenue, compared to gross margin of $74.9 million or 27% of revenue generated in the same period last year. Year-to-date, CES recorded gross margin of $159.7 million, or 21% of revenue, compared to $265.5 million or 27% of revenue for the same period in 2014. For both comparative periods, the decline in gross margin is largely as a result of the margin compression experienced in both

Canada and the US, the $5.6 million of one-time inventory charges considered to be non-recurring 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 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 December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Gross margin	**24,906**	74,864	**159,659**	265,491
as a percentage of revenue	**15%**	27%	**21%**	27%
Add back (deduct):				
Depreciation included in cost of sales	**8,577**	6,867	**31,830**	23,617
Loss (gain) on disposal of assets included in cost of sales	**289**	(158)	**151**	(678)
Cash Gross Margin [(1)]	**33,772**	81,573	**191,640**	288,430
as a percentage of revenue	**20%**	29%	**26%**	30%

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

For the three month period ended December 31, 2015, CES recorded Cash Gross Margin of $33.8 million or 20% of revenue, compared to Cash Gross Margin of $81.6 million or 29% of revenue generated in the same period last year. For the year ended December 31, 2015, CES recorded Cash Gross Margin of $191.6 million, or 26% of revenue, compared to Cash Gross Margin of $288.4 million or 30% of revenue in 2014. As noted above, the Company incurred one-time charges of $5.6 million relating to inventory write-offs and write-downs in Q4 2015, that negatively impacted Cash Gross Margin during the three and twelve months ended December 31, 2015. The decline in Cash Gross Margin is reflective of the significant price discounting experienced in both Canada and US. Throughout 2015, CES responded to changes in activity levels by rationalizing costs and headcount, however these cost reduction initiatives did not fully offset the price compression experienced from the discounting applied across all business units. In addition, the Canadian business' gross margin was negatively impacted by a protracted spring break-up with a weak recovery and by cost inflation of all USD denominated inputs as CAD has weakened considerably in 2015. The Company expects pricing pressure and margin compression to continue in this low commodity price environment as customers continue to focus on cash costs, and as competitors take more desperate actions to retain market share.

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 December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
General and administrative expenses	**41,055**	43,549	**151,623**	148,572
as a percentage of revenue	**25%**	16%	**20%**	15%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	**6,996**	5,102	**25,979**	21,071
Depreciation & amortization	**6,177**	5,207	**23,164**	17,007
Cash General and Administrative Costs [(1)]	**27,882**	33,240	**102,480**	110,494
as a percentage of revenue	**17%**	12%	**14%**	11%

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

For the three month period ended December 31, 2015, CES recorded Cash General and Administrative Costs of $27.9 million or 17% of revenue, compared to Cash General and Administrative Costs of $33.2 million or 12% of revenue generated in the same period last year. Year-to-date, CES recorded Cash General and Administrative Costs of $102.5 million or 14% of revenue, compared to $110.5 million or 11% of revenue in the same period in 2014. Cash General and Administrative Costs as a percentage of revenue for both the fourth quarter and year-to-date 2015 has increased primarily as a result of the decline in revenues despite the measures detailed below that the Company has taken to reduce Cash General and Administrative Costs on an absolute basis for both the fourth quarter and year-to-date 2015.

Throughout 2015, the Company took actions to reduce its G&A cost base in the current environment. These cost reduction measures included reduced headcounts, reduced compensation levels and reductions in discretionary spending. These measures have resulted in a decline of Cash General and Administrative Costs of $5.4 million or 16% from the $33.2 million incurred in the fourth quarter of 2014 and a decline of $8.0 million or 7% from the $110.5 million of Cash General and Administrative Costs incurred in the full year of 2014. The reduction in Cash General and Administrative Costs as a result of these cost cutting measures was offset in both the fourth quarter and year-to-date 2015 by increased costs related to the growing production and specialty chemical businesses in both Canada and the US, for which Cash General and Administrative costs have increased in line with activity. Further offsetting these cost reductions achieved were some one-time items incurred in the fourth quarter of 2015 including $1.4 million in additional bad debt allowances and $0.9 million in non-recurring transaction costs, professional fees and other relating to the Sialco Acquisition and some tax and internal restructuring initiatives. Finally, for both the three and twelve month periods ending December 31, 2015, US source G&A was negatively impacted on translation by weakness in CAD versus USD. 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 December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	**8,577**	6,867	**31,830**	23,617
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	**4,983**	4,523	**19,438**	14,721
Depreciation expense on property and equipment	**1,194**	684	**3,726**	2,286
	6,177	5,207	**23,164**	17,007
Total depreciation and amortization expense	**14,754**	12,074	**54,994**	40,624

Depreciation of property and equipment and amortization of intangible assets totalled $14.8 million for the three month period ended December 31, 2015, as compared to $12.1 million for the same period in 2014. For the three months ended December 31, 2015, $8.6 million (Q4 2014 – $6.9 million) of depreciation of property and equipment was included in cost of sales and $6.2 million (Q4 2014 – $5.2 million) of depreciation and amortization was included in G&A, of which $5.0 million related to amortization of intangible assets (Q4 2014 – $4.5 million). For the year ending December 31, 2015, depreciation of property and equipment and amortization of intangible assets totalled $55.0 million, as compared to $40.6 million for the same period in 2014. Of this amount, $31.8 million (2014 - $23.6 million) was included in cost of sales and $23.2 million (2014 - $17.0 million) was included in G&A, of which $19.4 million related to amortization of intangible assets (2014 - $14.7 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 Sialco Acquisition and the acquisitions completed in the second half of 2014. Depreciation recorded in the US was also negatively impacted on translation by weakness in CAD versus USD in 2015.

Finance Costs

For the three and twelve months ended December 31, 2015 and 2014, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Foreign exchange (gain) loss	**(1,492)**	529	**(2,248)**	413
Financial derivative (gain) loss	**(2,142)**	134	**(5,411)**	572
Amortization of debt issue costs and premium	**317**	194	**1,311**	1,332
Interest on debt, net of interest income	**5,754**	6,245	**23,406**	22,023
Finance costs	**2,437**	7,102	**17,058**	24,340

Finance costs were $2.4 million for the three months ended December 31, 2015, as compared to $7.1 million during the same period in 2014. Year-to-date, CES incurred finance costs of $17.1 million, as compared to $24.3 million during 2014. The change in finance costs year-over-year is outlined below.

Interest expense
During the three and twelve months ended December 31, 2015, interest expense included in finance costs consists of interest expense on vehicle financing loans, capitalized lease facilities, the Amended Senior Facility, and the Senior Notes. Amortization of capitalized deferred financing costs on both the Senior Notes and the Amended Senior Facility are included in interest expense under IFRS, and in the table below is deducted from total interest expense in order to calculate Cash Interest Expense.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Total interest expense, net of interest income	**6,071**	6,439	**24,717**	23,355
Deduct non-cash interest expense:				
Amortization of debt issue costs and premium	**317**	194	**1,311**	1,332
Cash Interest Expense [(1)]	**5,754**	6,245	**23,406**	22,023

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

The Cash Interest Expense component of finance costs was $5.8 million for the three months ended December 31, 2015, compared to $6.2 million in the fourth quarter of 2014. Quarter over quarter, interest expense has decreased largely as a result of the decreased net draw on the Amended Senior Facility in Q4 2015 as compared to Q4 2014, thereby reducing interest incurred on outstanding borrowings. For the year ended December 31, 2015, the Company recorded interest expense of $23.4 million as compared to $22.0 million in the same period in 2014. The year-over-year increase is primarily as a result of additional interest expense on the $75.0 million in Senior Notes issued in July 2014, offset by decreased interest expense incurred on the Amended Senior Facility in 2015 when compared to 2014. Total interest expense relating to the Company's Senior Notes during the three and twelve months ended December 31, 2015 is $5.4 million and $21.4 million, respectively, as compared to $5.4 million and $18.9 million in the respective 2014 periods.

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2015 include a net foreign exchange gain of $1.5 million and $2.2 million, respectively (2014 – a net loss of $0.5 million and $0.4 million, respectively), primarily related to foreign exchange gains on the Company's USD denominated receivables and cash balances held in Canada.

Derivative gains and losses
Finance costs for the three months ended December 31, 2015, include net derivative gains of $2.1 million (2014 – net losses of $0.1 million), relating to the Company's foreign currency derivative contracts. For the year ended December 31, 2015, finance costs included net derivative gains of $5.4 million, compared to net losses of $0.5 million in 2014. As of December 31, 2015, the Company had a financial derivative asset of net $2.4 million and a financial derivative liability of $0.09 million relating to its outstanding derivative contracts (December 31, 2014 – net liability of $0.6 million).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies. At December 31, 2015, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD dividend payments and USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD$000's	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2016	$2,413	Deliverable Forward	Physical Purchase	$1.2456
February 2016	$2,013	Deliverable Forward	Physical Purchase	$1.2459
March 2016	$2,014	Deliverable Forward	Physical Purchase	$1.2571
April 2016	$2,000	Deliverable Forward	Physical Purchase	$1.2482
May 2016	$2,000	Deliverable Forward	Physical Purchase	$1.2500
Total	$10,440			$1.2492

Period	Notional Call USD$000's	Notional Put USD$000's	Settlement	Average USDCAD Exchange Rate
January 2016	$825	$1,650	Physical Purchase	$1.3005
February 2016	$825	$1,650	Physical Purchase	$1.3005
March 2016	$825	$1,650	Physical Purchase	$1.3005
April 2016	$825	$1,650	Physical Purchase	$1.3005
May 2016	$825	$1,650	Physical Purchase	$1.3005
June 2016	$2,825	$5,650	Physical Purchase	$1.2868
July 2016	$2,825	$5,650	Physical Purchase	$1.2868
August 2016	$2,825	$5,650	Physical Purchase	$1.2868
September 2016	$2,000	$4,000	Physical Purchase	$1.3040
October 2016	$2,000	$4,000	Physical Purchase	$1.3063
November 2016	$2,000	$4,000	Physical Purchase	$1.3063
December 2016	$2,000	$4,000	Physical Purchase	$1.3142
Total	$20,600	$41,200		$1.2977

In addition to the contracts noted above, the Company had also entered into zero-cost collars with the option to sell US$0.6 million on a monthly basis from January 2016 to December 2016, with USDCAD strike prices ranging from $1.0770 to $1.2260 and participation rates ranging from $1.3500 to $1.4500.

Other Income

During the year ended December 31, 2015, the Company recorded other income of $11.6 million related to a recovery of deferred consideration payable related to the Venture Mud acquisition completed in July 2013. Based on financial metrics, the Company reversed a portion of the remaining amount accrued for this earn out.

Current and Deferred Income Taxes

For the three and twelve months ended December 31, 2015 and 2014, income tax expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Current income tax (recovery) expense	**(5,351)**	(5,108)	**(13,494)**	10,583
Deferred income tax (recovery) expense	**(53,422)**	10,285	**(46,453)**	13,941
Total income tax (recovery) expense	**(58,773)**	5,177	**(59,947)**	24,524

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. During the three and twelve months ended December 31, 2015, the Company recorded an income tax recovery of $58.8 million and $59.9 million, respectively, as compared to an expense of $5.2 million and $24.5 million in 2014. The year-over-year decrease in current income tax expense is primarily related to decreased operating income in 2015, partially offset by foreign exchange gains and an increase in tax rates. The year-over-year decrease in deferred income tax expense is primarily due to the goodwill impairment and a combination of other changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

CES is currently under audit by the Canada Revenue Agency (the "CRA") with respect to its conversion from a publicly traded limited partnership to a public corporation on January 1, 2010. The CRA has issued a proposal letter to the Company with respect to its 2010, 2011 and 2012 taxation years, stating its intention to disallow non-capital losses of approximately $57.7 million. The Company has not yet received any Notices of Reassessment relating to this matter. Management believes it will be successful in defending its position and as such, no amount has been accrued in the Company's December 31, 2015 financial statements with respect to this Conversion transaction. See also "Risks and Uncertainties – Income Tax Matters".

Net Working Capital

Despite the challenges of the current low commodity price environment on revenues and earnings, CES' consumables chemical business model has responded as expected in the activity slow-down with significant conversion of working capital into cash. At December 31, 2015, the Company had a nominal net draw of $0.4 on the Amended Senior Facility (net of capitalized transaction costs of $0.5 million) compared to a net draw of $60.9 million (net of capitalized transaction costs of $0.7 million) at December 31, 2014. CES continued to maintain a strong statement of financial position or "balance sheet" as at December 31, 2015, with positive net working capital of $230.2 million (December 31, 2014 - $307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the year-to-date period ended December 31, 2015 and is comprised primarily of a $116.5 million reduction in accounts receivable, a $20.2 million reduction in inventory, and a $10.7 million reduction in prepaid expenses. These decreases to working capital are partially offset by a $44.9 million reduction in accounts payable, a $12.5 million increase in income taxes receivable, and a $8.6 million decline in deferred acquisition consideration payable. It should be noted that in light of current market conditions, CES had placed trade credit insurance over its 2015 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature. CES made no claims under that policy in 2015, but in light of continued commodity price weakness has renewed this particular insurance for calendar 2016.

Total Current Assets

Total current assets of CES decreased from $445.1 million at December 31, 2014 to $312.6 million at December 31, 2015. The decrease is primarily due to a reduction in accounts receivable by $116.5 million, a reduction in inventory by $12.2 million, and a reduction in prepaid expenses by $10.7 million, offset by an increase to income taxes receivable of $12.5 million.

Total Long-Term Assets

Year-over-year, total long-term assets of CES increased by $23.3 million to $618.9 million at December 31, 2015 from $643.0 million at December 31, 2014. The increase is primarily attributable to the increase in USD denominated long-term assets on translation as a result of the weakening CAD and the long-term assets acquired as part of the Sialco Acquisition, offset by the goodwill impairment recorded by the Company in Q4 2015.

Long-Term Financial Liabilities

CES had long-term debt totalling $299.6 million at December 31, 2015, compared to $360.0 million at December 31, 2014, a decrease of $60.4 million. The year-over-year decrease in long-term debt is primarily as a result of the Company repaying essentially all of its net draw on the Amended Senior Facility during the year-to-date period.

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

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

At December 31, 2015, long-term debt liabilities were comprised of the following balances:

	As at	
$000's	**December 31, 2015**	December 31, 2014
Amended Senior Facility	**966**	61,585
Senior Notes	**300,000**	300,000
Vehicle financing loan	**-**	628
Equipment financing loans	**-**	405
	300,966	362,618
Less net unamortized debt issue costs	**(4,588)**	(5,653)
Less net unamortized debt premium	**3,199**	3,943
Less current portion of long-term debt	**-**	(884)
Long-term debt	**299,577**	360,024

At December 31, 2015, the Company had finance lease liabilities of $14.0 million, net of the current portion of $7.5 million, representing a total decrease of $0.7 million from December 31, 2014. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

$000's	
Less than 1 year	**8,058**
1-5 years	**6,817**
5+ years	**10**
Total lease payments	**14,885**
Amount representing implicit interest	**(910)**
Finance lease obligations	**13,975**
Less: current portion of finance lease obligations	**(7,452)**
Long-term finance lease obligations	**6,523**

During the three and nine months ended December 31, 2015, the Company made long-term scheduled debt and lease repayments totalling $2.0 million and $9.0 million, respectively, on its finance leases, vehicle debt, and credit facilities.

Shareholders' Equity
Shareholders' equity declined by $8.4 million from $540.0 million at December 31, 2014 to $531.6 million at December 31, 2015. The decline in shareholders' equity is primarily attributable to a $92.3 net loss attributable to shareholders of the Company, $69.0 million of dividends declared by the Company during the period and $17.9 million reclassified from contributed surplus for stock-based compensation plans offset by a $119.7 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries, $21.3 million relating to the issuance of equity under the Company's stock-based compensation plans, $26.0 million in contributed surplus related to stock-based compensation expense, and $4.5 million in common shares issued as consideration for the Sialco Acquisition.

Acquisitions
On December 9, 2015, CES completed the acquisition of all outstanding shares of Sialco, a specialty chemical manufacturing company located in Delta, BC. The Company also acquired the land and building that Sialco operated on from 0697983 B.C. Ltd, via a real property purchase agreement. The effective date of the Sialco Acquisition was December 1, 2015.

The aggregate purchase price of the Sialco Acquisition was $25.5 million consisting of $4.5 million of share consideration satisfied through the issuance of 958,163 common shares of the Company and $21.0 million payable in cash, of which $19.3 million was paid on the respective closing date and $1.7 million is consideration payable post close related to working capital adjustments. The purchase price allocation is based upon the respective fair values as of the effective date of the acquisition. In conjunction with the Sialco Acquisition, the Company recorded $0.2 in transaction costs to general and administrative expenses during the year ended December 31, 2015.

Related Party Transactions
Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2015, remuneration of $12.9 million included $2.2 million of salaries and cash-based compensation and $10.7 million of stock-based compensation costs (December 31, 2014 – $9.1 million and $4.7 million, respectively).

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

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000's, except per share amounts)	**Dec 31, 2015**	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenue	**164,958**	187,757	163,137	233,762
Gross margin	**24,906**	41,258	36,264	57,231
Net (loss) income [1]	**(114,402)**	6,457	1,758	13,911
per share– basic [2]	***(0.52)***	*0.03*	*0.01*	*0.06*
per share– diluted [2]	***(0.52)***	*0.03*	*0.01*	*0.06*
EBITDAC [3]	**8,473**	24,561	19,610	41,057
per share– basic [2]	***0.04***	*0.11*	*0.09*	*0.19*
per share– diluted [2]	***0.04***	*0.11*	*0.09*	*0.19*
Funds Flow From Operations [3]	**7,844**	25,375	15,865	34,764
per share– basic [2]	***0.04***	*0.12*	*0.07*	*0.16*
per share– diluted [2]	***0.04***	*0.11*	*0.07*	*0.16*
Dividends declared	**16,027**	18,025	17,949	17,848
per share [2]	***0.0730***	*0.0825*	*0.0825*	*0.0825*
Shares Outstanding				
End of period [2]	**220,424,818**	219,168,309	217,816,380	217,037,911
Weighted average – basic [2]	**219,534,188**	218,237,459	217,442,891	216,131,621
Weighted average – diluted [2]	**219,534,188**	224,545,092	223,738,234	221,250,593

	Three Months Ended			
($000's, except per share amounts)	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
Revenue	278,672	272,938	189,785	231,310
Gross margin	74,864	77,916	48,264	64,447
Net income [1]	18,816	20,937	8,459	19,492
per share– basic [2]	*0.09*	*0.10*	*0.04*	*0.10*
per share– diluted [2]	*0.08*	*0.09*	*0.04*	*0.09*
EBITDAC [3]	47,562	54,705	31,383	43,522
per share– basic [2]	*0.22*	*0.26*	*0.15*	*0.22*
per share– diluted [2]	*0.21*	*0.25*	*0.15*	*0.21*
Funds Flow From Operations [3]	46,810	37,862	24,724	35,566
per share– basic [2]	*0.22*	*0.18*	*0.12*	*0.18*
per share– diluted [2]	*0.21*	*0.17*	*0.12*	*0.17*
Dividends declared	17,745	17,056	14,935	13,488
per share [2]	*0.0825*	*0.0800*	*0.0730*	*0.0667*
Shares Outstanding				
End of period [2]	215,512,074	214,157,240	204,008,616	203,260,062
Weighted average – basic [2]	214,875,446	212,194,898	203,533,809	201,975,414
Weighted average – diluted [2]	221,469,050	220,449,815	212,227,023	210,566,073

Notes:
[1] Represents net income attributable to the shareholders of the Company.
[2] Pursuant to the three-for-one split of CES' outstanding common shares effective at the close of business on July 18, 2014, all historical per share data has been retroactively adjusted to reflect the stock split.
[3] 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.

SELECTED ANNUAL INFORMATION

	Year Ended December 31,				
($000's, except per share amounts)	**2015**	% Change	2014	% Change	2013
Revenue	**749,614**	(23%)	972,705	47%	662,818
Gross margin	**159,659**	(40%)	265,491	52%	174,786
Gross margin percentage of revenue	**21%**		27%		26%
(Loss) income before taxes	**(152,223)**	(264%)	92,579	78%	51,893
per share – basic [2]	***(0.70)***	(259%)	*0.44*	*63%*	*0.27*
per share - diluted [2]	***(0.70)***	(263%)	*0.43*	*65%*	*0.26*
Net (loss) income	**(92,276)**	(236%)	67,704	82%	37,255
per share – basic [2]	***(0.42)***	(227%)	*0.33*	*65%*	*0.20*
per share - diluted [2]	***(0.42)***	(235%)	*0.31*	*63%*	*0.19*
EBITDAC [1]	**93,700**	(47%)	177,172	61%	109,818
per share – basic [2]	***0.43***	(49%)	*0.85*	*47%*	*0.58*
per share - diluted [2]	***0.43***	(48%)	*0.82*	*49%*	*0.55*
Funds Flow From Operations [1]	**83,848**	(42%)	144,962	74%	83,094
per share – basic [2]	***0.38***	(46%)	*0.70*	*59%*	*0.44*
per share - diluted [2]	***0.38***	(43%)	*0.67*	*60%*	*0.42*
Dividends declared	**69,849**	10%	63,224	43%	44,319
per share [2]	***0.3205***	6%	*0.3025*	*31%*	*0.2317*

	As At December 31,				
Financial Position ($000's)	**2015**	% Change	2014	% Change	2012
Net working capital	**230,222**	(25%)	307,081	56%	197,366
Total assets	**931,537**	(14%)	1,088,080	35%	807,319
Long-term financial liabilities [3]	**309,900**	(18%)	378,662	17%	322,766
Shareholders' equity	**531,648**	(2%)	540,037	50%	360,519

Notes:

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2015, the Company had net working capital of $230.2 million (December 31, 2014 - $307.1 million). The decrease in working capital from December 31, 2014 is primarily due to the decrease in activity during the year-to-date period ended December 31, 2015 and is comprised primarily of a $116.5 million reduction in accounts receivable, a $20.2 million reduction in inventory, and a $10.7 million reduction in prepaid expenses. These decreases to working capital are partially offset by a $44.9 million reduction in accounts payable, a $12.5 million increase in income taxes receivable, and a $8.6 million decline in deferred acquisition consideration payable.

Amended Senior Facility

On September 30, 2015, the Company completed an amendment to its existing Senior Facility which extended the term to maturity by one year to September 28, 2018. With the exception of the change to the Company's debt covenants outlined below, the terms and conditions of the Amended Senior Facility remain consistent with the previous Senior Facility, allowing the Company to borrow up to $200.0 million, with the option to borrow an additional $100.0 million subject to certain terms and conditions. The increase in the maximum Total Net Funded Debt to EBITDA covenant provides the Company with more flexibility at no additional cost. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.50% to 1.25% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.50% to 2.25%. The Amended Senior Facility has a standby fee ranging from 0.30% to 0.45%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

At December 31, 2015, the Company had a net draw of $0.4 million on the Amended Senior Facility, net of capitalized transaction costs of $0.5 million (December 31, 2014 – net draw of $60.9 million, net of capitalized transaction costs of $0.7 million). The maximum available draw on the Amended Senior Facility at December 31, 2015, was $200.0 million (December 31, 2014 - $200.0 million). As at the date of this MD&A, the Company had a net draw of $nil on the Amended Senior Facility and a cash balance of approximately $20 million.

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

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

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

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

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

Senior Notes
At December 31, 2015, the Company had $300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020. The Senior Notes bear interest of 7.375% per annum and contain certain early redemption options which become effective after April 17, 2017, whereby the Company can choose to redeem all or a portion of at various redemption prices, which includes the principal amount plus any accrued and unpaid interest to the applicable redemption date. Interest is payable on the Senior Notes semi-annually on April 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.

As at December 31, 2015, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements. The Company's debt covenants are calculated as follows:

	As at	
$000's	**December 31, 2015**	December 31, 2014
Total Net Funded Debt to EBITDA Ratio (Must be < 4.50:1.00)		
Total Net Funded Debt	**314,941**	377,313
EBITDA for the four quarters ended	**93,700**	177,172
Ratio	**3.36**	2.13
Senior Funded Debt to EBITDA Ratio (Must be < 2.50:1.00)		
Senior Funded Debt	**14,941**	77,313
EBITDA for the four quarters ended	**93,700**	177,172
Ratio	**0.16**	0.44
EBITDA to Interest Expense (Must be > 3.00:1.00)		
EBITDA for the four quarters ended	**93,700**	177,172
Interest Expense for the four quarters ended	**23,436**	22,133
Ratio	**4.00**	8.00

Notes:
[1] Included in Total Net Funded Debt at December 31, 2015 is $300.0 million of principal on Senior Notes due in April 2020 (December 31, 2014 - $300.0 million). Excluding these Senior Notes, Senior Funded Debt is $14.9 million at December 31, 2015 and $77.3 million at December 31, 2014.

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. The Company's Net Funded Debt to EBITDA and EBITDA to Interest Expense 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 December 31, 2015, CES is in compliance with terms and covenants of its lending agreements; however, with the expectation that oilfield services activity will remain low throughout 2016, the Company is in discussions with its banking syndicate seeking relief of certain covenants in the Amended Senior Facility. These covenants apply only to the Amended Senior Facility and not to its Senior Notes. The Company's strong relationship with its banking syndicate, insignificant net draw on its Amended Senior Facility and the fact that the Senior Notes do not mature until 2020 should leave CES well positioned to favourably conclude these negotiations. Management is intent on negotiating covenant terms that provide maximum flexibility to withstand a prolonged downturn and is confident that the Company should be able to reach a mutually agreeable arrangement prior to March 31, 2016.

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

- Bank leasing facilities of which the Company had an outstanding balance owing on these lease facilities of $0.07 million at December 31, 2015, as compared to $0.7 million at December 31, 2014. The fixed interest rate leases are for terms ranging to March 2016 with interest on the lease facilities at a weighted average rate of 5.04%.
- Non-bank vehicle and equipment finance leases are secured by each related asset at a weighted average interest rate of approximately 5.41%, and have termination dates ranging from January 2016 through April 2021. At December 31, 2015, outstanding vehicle and equipment finance lease obligations totalled $13.9 million as compared to $14.0 million at December 31, 2014.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2015:

	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	60,169	-	-	-	-	**60,169**
Dividends payable [2]	3,968	-	-	-	-	**3,968**
Income taxes payable	-	802	-	-	-	**802**
Deferred acquisition consideration	4,597	5,300	3,800	-	-	**13,697**
Senior Notes [4]	-	-	-	300,000	-	**300,000**
Interest on Senior Notes	-	22,125	22,125	55,313	-	**99,563**
Long-term debt at floating interest rates [3]	-	-	-	966	-	**966**
Finance lease obligations at fixed interest rates [3]	33	34	-	-	-	**67**
Finance lease obligations at floating interest rates [3]	1,245	6,140	3,867	2,232	424	**13,908**
Office operating leases	1,837	5,017	4,074	4,153	-	**15,081**
Total	71,849	39,418	33,866	362,664	424	**508,221**

Notes:

[1] *Payments denominated in foreign currencies have been translated using the appropriate December 31, 2015 exchange rate*

[2] *Dividends declared as of December 31, 2015*

[3] *Long-term debt and 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 December 31, 2015, cash flow from operating activities was an inflow of $25.2 million compared to an inflow of $4.5 million during the three months ended December 31, 2014, with the increase being primarily as a result of the change in non-cash working capital.

Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended December 31, 2015, Funds Flow From Operations was $7.8 million, compared to a $46.8 million for the three months ended December 31, 2014. The decline in Funds Flow from Operations from Q4 2014 to Q4 2015 is largely as a result of the decrease in activity in 2015 and resulting impact on net operating cash flows during the fourth quarter.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Cash provided by operating activities	**25,217**	4,479	**208,721**	46,020
Adjust for:				
Change in non-cash operating working capital	**(17,373)**	42,331	**(124,873)**	98,942
Funds Flow From Operations [1]	**7,844**	46,810	**83,848**	144,962

Notes:

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

Cash Flows from Investing Activities

For the three months ended December 31, 2015, net cash outflows from investing activities totalled $27.9 million, a decrease from the $29.0 million outflow from investing activities during the three months ended December 31, 2014. Although investment in property and equipment has declined in Q4 2015 compared to Q4 2014 by $7.9 million, cash outflows related to business combinations was $19.3 million in Q4 2015 for the Sialco Acquisition compared to $10.5 million in Q4 2014 for payments relating to deferred consideration payable.

For the three months ended December 31, 2015, $10.0 million was spent on property and equipment (net of $1.3 million in vehicle financing and leases). During the quarter, CES had $0.6 million of additions related to Maintenance Capital and $10.6 million of additions related to Expansion Capital including vehicle financing. Notable expansion additions during the quarter ended December 31, 2015 include: $4.3 million for warehouse and facilities, $1.6 million in leasehold improvements, $1.4 million for machinery and field equipment, $1.3 million in vehicles, $0.6 million for processing equipment, $0.6 million in tanks, and $0.8 million for other expansion additions.

Expansion Capital expenditures in Q4 2015 were primarily related to the completion of construction of the barite grinding facility in Corpus Christi, Texas; the continued expansion of JACAM facilities; and the construction of new laboratory facilities in Calgary, Alberta and Midland, Texas that will service both the drilling fluids and production and specialty chemicals businesses.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Expansion Capital [(1)]	**10,648**	17,104	**49,227**	66,293
Maintenance Capital [(1)]	**576**	3,620	**2,853**	8,606
Total investment in property and equipment	**11,224**	20,724	**52,080**	74,899
Asset financing and leases	**(1,253)**	(3,013)	**(5,753)**	(13,421)
Capital expenditures	**9,971**	17,711	**46,327**	61,478
Change in non-cash investing working capital	**(987)**	(858)	**(314)**	(1,275)
Cash used for investment in property and equipment	**8,984**	16,853	**46,013**	60,203

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 $6.0 million will be maintenance capital additions, and an estimated $24.0 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 December 31, 2015, cash flows from financing activities totalled a cash outflow of $16.1 million compared to a cash inflow of $24.5 million during the comparative prior year period. This year-over-year decrease in cash flows from financing activities is primarily due to the lower net drawings made on the Amended Senior Facility during Q4 2015 when compared to Q4 2014.

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 December 31,		Year Ended December 31,	
$000's	**2015**	2014	**2015**	2014
Cash provided by operating activities	**25,217**	4,479	**208,721**	46,020
Adjust for:				
Change in non-cash operating working capital	**(17,373)**	42,331	**(124,873)**	98,942
Funds Flow From Operations [(1)]	**7,844**	46,810	**83,848**	144,962
less: Maintenance Capital [(2)]	**(576)**	(3,620)	**(2,853)**	(8,606)
Distributable Earnings [(1)]	**7,268**	43,190	**80,995**	136,356
Dividends declared	**16,027**	17,745	**69,849**	63,224
Payout Ratio [(1)]	**221%**	41%	**86%**	46%

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

Distributable Earnings were $7.3 million for the three months ended December 31, 2015, compared with $43.2 million for the same period in 2014. During the three months ended December 31, 2015, CES declared monthly dividends totalling $0.073 per share for the quarter. During the fourth quarter of 2015, the Payout Ratio was 221% compared to 41% for the third quarter of 2014. Year-to-date, the Payout Ratio was 86% compared to 46% in 2014.

Dividend Policy
In an effort to preserve the Company's balance sheet strength in the current low commodity price environment, the Company has reduced the monthly declared dividend amount from $0.0275 per share in November 2015 to $0.0025 per common share in February 2016. The reduced dividend will conserve approximately $66.0 million on an annualized basis.

The Company declared dividends to holders of common shares for the year ended December 31, 2015, as follows:

$000's except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 30	Feb 13	$0.0275	**5,939**
February	Feb 27	Mar 13	$0.0275	**5,940**
March	Mar 31	Apr 15	$0.0275	**5,969**
April	Apr 30	May 15	$0.0275	**5,976**
May	May 29	Jun 15	$0.0275	**5,983**
June	Jun 30	Jul 15	$0.0275	**5,990**
July	Jul 31	Aug 14	$0.0275	**5,993**
August	Aug 31	Sep 15	$0.0275	**6,005**
September	Sep 30	Oct 15	$0.0275	**6,027**
October	Oct 30	Nov 13	$0.0275	**6,029**
November	Nov 30	Dec 15	$0.0275	**6,030**
December	Dec 31	Jan 15	$0.0180	**3,968**
Total dividends declared during the period			$0.3205	**69,849**

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.

In December 2015, CES announced a dividend reduction for its January 2016 dividend payment to $0.018 per common share. Subsequent to December 31, 2015, the Company declared dividends to holders of common shares in the amount of $0.018 and $0.0025 per common share payable on February 12, 2016 and March 15, 2016, for shareholders of record on January 29, 2016 and February 29, 2016, respectively. 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 December 31, 2015, CES had a total of 220,424,818 common shares outstanding. As of the date of this MD&A, CES had a total of 220,653,913 common shares outstanding.

Stock-based Compensation
As at December 31, 2015, a total of 22,042,482 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 5,902,011 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At December 31, 2015, a total of 11,248,244 Share Rights were outstanding (December 31, 2014 – 6,344,044) at a weighted average exercise price of $7.07 (assuming all SRIP's are exercised at their respective original exercise price) of which 2,913,244 were exercisable. As of the date of this MD&A, an aggregate of 11,029,244 Share Rights remaining outstanding, of which 2,973,244 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At December 31, 2015, a total of 4,892,227 Restricted Share Units were outstanding (December 31, 2014 – 4,093,785) at a weighted average issuance price of $6.32, none of which were vested. As of the date of this MD&A, an aggregate of 4,605,877 Restricted Share Units remain outstanding, none of which have vested.

Commitments
At December 31, 2015, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000's	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Office and facility rent	6,854	4,074	2,691	1,318	144	**15,081**

Payments denominated in foreign currencies have been translated using the appropriate December 31, 2015 exchange rate

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

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

Accounts receivable
The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts.

Inventories
The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed at each reporting date for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Property and equipment
Management estimates the useful lives and residual value of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at each reporting date or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. The recoverability of the Company's asset carrying values is assessed at the CGU level. The determination of the CGUs is subject to management judgments taking into consideration: the nature of the underlying business operations, geographical proximity of operations, shared infrastructure, and exposure to market risk.

The assessment of any impairment of property and equipment, including intangible assets and goodwill, is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated using future cash flow projections, discounted to their present value, expected to arise from the CGU to which the goodwill relates. The required valuation methodology and underlying financial information that is used to determine value in use requires significant judgments to be made by management. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. The estimated future cash flows are dependent upon a number of factors including, among others, the levels of activity within the oil and natural gas industry. Future activity cannot be predicted with certainty and, as such, actual results may differ from these estimates.

Derivatives
The fair value of outstanding derivatives is based on forward prices, discount rates, and forward foreign exchange rates as at the reporting date and may differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in net income. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of Share Rights granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the share right, expected volatility, actual and expected life of the Share Rights, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the Share Rights is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of Share Rights and Restricted Share Units that will be forfeited and the rate is adjusted to reflect the actual number of share rights and restricted share units that vest. Consequently, the actual stock-based compensation expense associated with the Company's share-based compensation plans may vary from the amount estimated.

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases used in the computation of taxable income, measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realized based on the enacted or substantively enacted future income tax rates in effect at the end of the reporting period. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact net income.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, provincial and state jurisdictions in Canada, the United States, and Luxembourg. Corporate income tax and other returns are filed, and current income tax provisions are recorded, based upon the transactions entered into and recorded by the Company and are based on the estimates and calculations used by the Company during the normal course of business and in the preparation of these returns. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit which could result in adjustments and potential litigation by the tax authorities, which in turn could affect the Company's tax provisions in future years. As applicable, the Company maintains provisions for uncertain tax positions that it believes are appropriate. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors at the reporting period. The Company reviews the adequacy of these provisions at the end of each reporting period and adjusts them as required. However, it is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. These differences could materially impact net income.

Contingencies
Management estimates the inputs used in determining the various contingencies accrued in the consolidated statement of financial position.

RECENT ACCOUNTING PRONOUNCEMENTS

Future accounting policy changes
The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

In May 2014, the International Accounting Standards Board issued International Financial Reporting Standard ("IFRS") 15, *"Revenue from Contracts with Customers"*, which is the result of the joint project with the Financial Accounting Standards Board. In September 2015, the IASB formalized the deferral of the effective date of IFRS 15 by one year, to January 1, 2018. The new standard replaces the two main recognition standards IAS 18, *"Revenue"*, and IAS 11, *"Construction Contracts"*. The Company plans to adopt IFRS 15 on January 1, 2018 and is currently assessing the potential impact of this adoption on the Company's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9, "*Financial Instruments*". The standard replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company plans to adopt IFRS 9 on January 1, 2018 and is currently assessing the potential impact of this adoption on the Company's financial statements.

In January 2016, the IASB issued IFRS 16, "*Leases*" which replaces IAS 17, "*Leases*". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "*Revenue from Contracts with Customers*". The Company plans to adopt IFRS 16 on January 1, 2019 and is currently assessing the potential impact of this adoption on the Company's financial statements.

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. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer and based on criteria set out in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, conducted an evaluation of the design and effectiveness of CES' ICFR as at December 31, 2015. Based on their assessment, Management determined that ICFR were effective as at December 31, 2015.

There have been no changes to CES' ICFR during the three and twelve months ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, its ICFR.

It should be noted that 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 18, 2015 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 decline into 2016, with West Texas Intermediate ("WTI") reaching a low in February 2016 of USD$26.05/bbl. Prices are likely to continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward curves for 2016 and 2017 are trading around USD$35/bbl and USD$40/bbl which is far below the USD$100/bbl pricing enjoyed by operators between July 2013 and July 2014. In addition, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets with regulatory approvals of several proposed pipeline projects in limbo and potential changes to the crude by rail industry in the face of several derailments.

Natural gas prices have remained relatively weak since their peak in 2008. The recent build in storage and warm winter forecast for North America has most quoted spot prices trading around USD$2.00 per MMBtu, and the futures curve for Nymex Henry Hub is trading below USD$3.00 per MMBtu for 2016 and 2017. In response to overall low commodity prices, drilling activity has slowed considerably and pricing pressure from customers has persistently increased. Spring break-up in WCSB came early in 2015 and the return to activity out of Spring break-up was muted. In the US, drilling activity, which appeared to have a found a bottom earlier in 2015, resumed its decline in late Q3 2015 and continued declining throughout Q4 2015 and into Q1 2016.

The volatility in the financial markets over the past several years has impacted the general availability of both credit and equity financing in the marketplace. Economic and sovereign debt issues are ongoing in Europe and, although there is more optimism for stronger economic growth in the US, the strength and duration of the recovery remains uncertain. Despite CES' successful issuance of the Additional Senior Notes and the equity Offering completed in July 2014, since the fall of 2014 there has been a retreat in the energy equity 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. The Company's Net Funded Debt to EBITDA and EBITDA to Interest Expense 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 December 31, 2015, CES is in compliance with terms and covenants of its lending agreements; however, with the expectation that oilfield services activity will remain low throughout 2016, the Company is in discussions with its banking syndicate seeking relief to certain covenants in the Amended Senior Facility. These covenants apply only to the Amended Senior Facility and not to its Senior Notes. The Company's strong relationship with its banking syndicate, insignificant net draw on its Amended Senior Facility and the fact that the Senior Notes do not mature until 2020 should leave CES well positioned to favourably conclude these negotiations. Management is intent on negotiating covenant terms that provide maximum flexibility to withstand a prolonged downturn and is confident that the Company should be able to reach a mutually agreeable arrangement prior to March 31, 2016.

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

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

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

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

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, reviewing and actively following up on older accounts, and insuring trade credit risks where deemed appropriate. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if the current low oil and natural gas price environment persists, and if access to capital markets remains weak for CES' customers, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk. It should be noted that in light of current market conditions, CES has placed trade credit insurance over both its 2015 and 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 preliminary results of the review of its royalty regime. Initial indications are that the proposed changes will have a negligible impact on oil and gas producers in the province. However, certain key components have not been finalized and 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"). 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 Tax Act, could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation.

In August 2014, the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which stated its intent to challenge the Canadian tax consequences of the Company's conversion from a publicly-traded Canadian limited partnership to a publicly-traded corporation (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). If the CRA issues notices of reassessment in respect of the Company's 2010, 2011, and 2012 taxation years, CES would be required to remit to the CRA 50% of the tax liability claimed by the CRA in order to appeal such reassessments. If such reassessments are issued and maintained on appeal, CES will be obligated to remit cash taxes of approximately $16 million for the three taxation years, plus applicable interest. CES provided a response to the proposal letter in September 2014, as well as a further submission in June 2015, and to date, no notice of reassessment has been received.

The impact of the CRA proposal on CES' tax provision has been considered by management and the Company remains confident that the tax returns as filed correctly reported the Canadian tax consequences of the Conversion transaction. If the proposed reassessments are issued by the CRA, management intends to vigorously defend CES' tax filing position. No amount has been provided for in the Company's December 31, 2015 consolidated financial statements related to the Conversion.

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

OUTLOOK

CES' 2015 results are reflective of the difficult industry conditions with reduced activity levels lowering revenue and price discounting resulting in margin compression. CES remains cautious with its outlook as 2016 looks even more challenging with no 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. To address this CES has undertaken significant steps in Q1 2016 to further rationalize its drilling fluids cost structure and will take additional appropriate actions as necessary. CES does 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. CES also believes that competitor consolidations and business failures will provide further opportunities for CES in a recovery scenario. In addition, CES sees that water usage including the problems of getting access to water for fracturing, and the costs of handling water will become an increasingly more important issue 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 over time it can continue to grow its share of the oilfield consumable chemical market. 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 well positioned to weather the current downturn in oilfield activity. We have a net nil draw on our Amended Senior Facility and our $300 million of Senior Notes are not due until April 2020. However, due to weaker upstream activity expected in 2016, CES is proactively in discussions with its banking syndicate seeking relief of certain covenants in the Amended Senior Facility. Interest costs, maintenance capital and dividends in 2016 will be fully funded from EBITDAC, leaving excess cash generation and available sources of capital to fund our growth capital and to fund M&A activity.

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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