Canadian Energy
SERVICES & TECHNOLOGY CORP.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2016

March 9, 2017

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IMPORTANT INFORMATION ABOUT THIS DOCUMENT

Throughout this Annual Information Form (**AIF**), the terms we, us, our, CES or the Corporation mean Canadian Energy Services & Technology Corp including all of our business units and consolidated subsidiaries.

Except where specifically noted, all information in this AIF is presented as of December 31, 2016. All references in this AIF to (**$**) or (**dollars**) are to Canadian dollars unless otherwise noted. Furthermore, all references to the number of common shares outstanding are presented after giving effect to the three-for-one stock split that occurred on July 13, 2011 and the three-for-one stock split that occurred on July 18, 2014.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We disclose forward-looking information to help current and prospective investors understand the Corporation's current expectations regarding future events and its operating performance in the context of the current business environment.

Certain statements used in this AIF use words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation.

Forward looking information and statements in this AIF include, but are not limited to the following:

- expected effects of acquisitions and investments;
- expected supply and demand for oilfield chemicals and services;
- our market positioning, business plans and opportunities for growth;
- anticipated reductions in our relative exposure to the effects of seasonality in the Western Canadian Sedimentary Basin (**WCSB**) due to the growth of its United States (**US**) operations;
- expectations that the Corporation's US operations will continue to be a larger revenue contributor in 2017 than the Canadian operations;
- expectations regarding expansion of services and increased market share in the drilling fluids business and production and chemicals business;
- the Corporation's dividend policy and expectations as to the payment of dividends in the future;
- the intended designation of dividends as "eligible dividends" under the Tax Act;
- the Corporation's intentions regarding the defense of its tax filing position with respect to the Conversion Transaction;
- results and impact of legal proceedings involving the Corporation; and
- the Corporation's belief it has sufficient funds available to fund its projected capital expenditures.

The Corporation's actual results could differ materially from those anticipated in such forward-looking information as a result of number of factors and risks. Such risks and uncertainties include, but are not limited to:

- volatility in industry activity levels;
- volatility in oil and natural gas commodity prices;
- volatility in foreign exchange rates;
- reliance on significant clients;
- reliance on key personnel;
- reliance on proprietary technology;
- ability to collect on accounts receivable;
- the need to successfully integrate acquisitions;
- the Corporation's liquidity and access to capital; and
- the performance of capital markets.

The foregoing list of risk factors is not exhaustive. Other risks and uncertainties are outlined in this AIF under the heading *Risks Factors*.

This forward-looking information and statement made in this AIF are made at the date hereof and the Corporation assumes no obligation to update or revise such information to reflect new events or circumstances unless otherwise required by applicable securities laws.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this AIF is based upon independent industry publications and websites or was based on estimates derived from the same along with the knowledge of and experience of management in the markets in which the Corporation operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, CES. Actual outcomes may vary materially from those forecasted in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Corporation has not independently verified any of the data from third party sources referred to in this AIF or ascertained the underlying assumptions relied upon by such sources.

ABOUT CANADIAN ENERGY SERVICES & TECHNOLOGY CORP.

The Corporation's core business is to design, implement, and manufacture technically advanced consumable fluids and specialty chemicals for the North American oil and natural gas industry. The Corporation operates in the **WCSB** and in several basins throughout the **US**, with an emphasis on servicing the ongoing major resource plays. In the WCSB, CES operates under the trade names Canadian Energy Services, PureChem Services (**PureChem**), Sialco Materials Ltd. (**Sialco**), Clear Environmental Solutions (**Clear**), and EQUAL Transport (**EQUAL**). In the US, CES operates under the trade names AES Drilling Fluids (**AES**), AES Frac Fluids (**AES Frac**), Superior Weighting Products (**Superior Weighting**), JACAM Chemicals (**JACAM**), and Catalyst Oilfield Services (**Catalyst**).

The Corporation is incorporated under the Business Corporations Act (Canada). We previously existed as a publically-traded Canadian limited partnership, known as Canadian Energy Services L.P., and converted to a publically-traded corporation on January 1, 2010, under a statutory plan of arrangement.

On June 20, 2013, CES amended its articles of incorporation to vary the terms of the common shares to permit the payment of stock dividends.

Other than as described above, there have been no other material amendments to the articles of incorporation of CES since the conversion from a listed partnership on January 1, 2010.

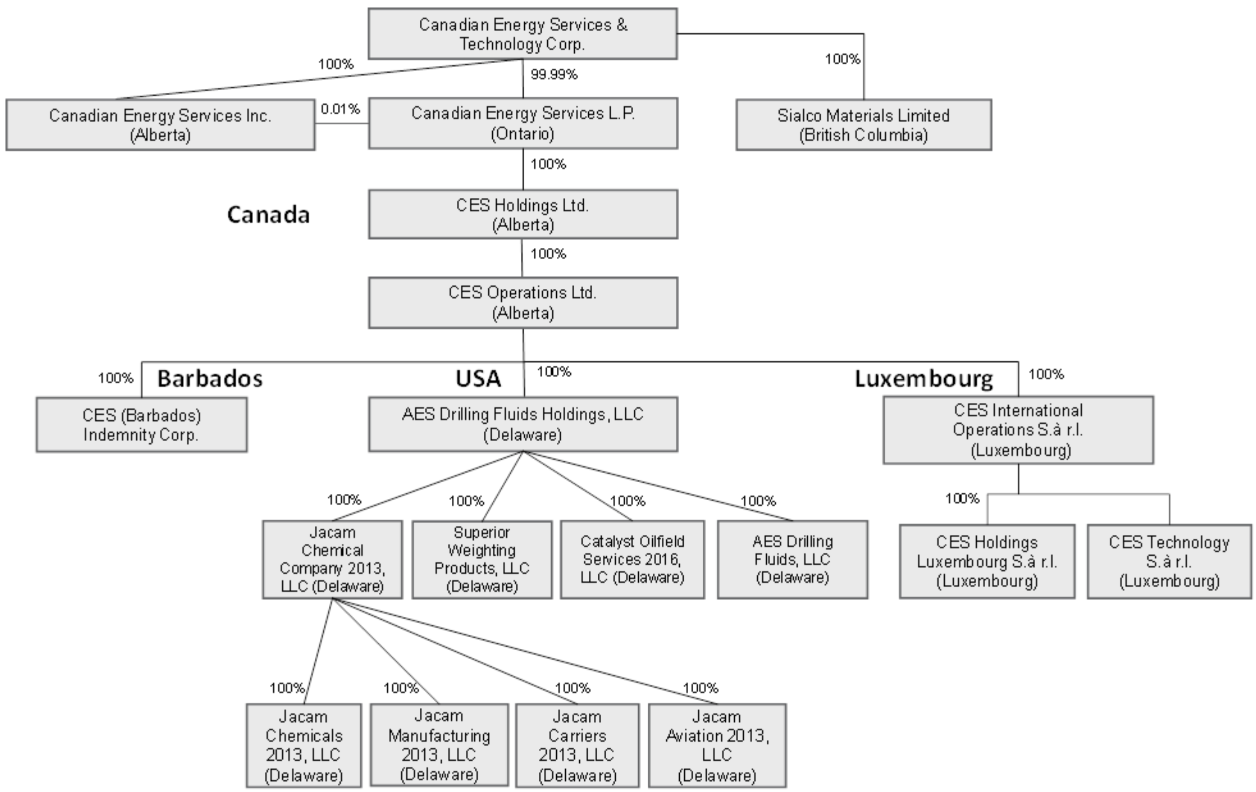
Our common shares trade on the Toronto Stock Exchange (**TSX**) under the symbol CEU and on the OTCQX exchange in the US under the symbol CESDF.

The head office of CES is located at 1400, 700 – 4th Avenue S.W., Calgary, Alberta, Canada, T2P 3J4, email: cesinfo@ceslp.ca and website: http://www.canadianenergyservices.com

Our registered office is located at 4000, 421 - 7th Avenue S.W., Calgary, Alberta, Canada, T2P 4K9.

Our Organizational Structure

The following diagram sets forth the corporate organizational structure and material intercorporate relationships of CES at March 1, 2017.



Three-Year Corporate History

2016

Industry Conditions

Benchmark oil and natural gas prices declined to record low levels in early 2016, and as a result, oilfield services activity levels declined from 2015 levels through the first half of 2016. In response to this continued industry downturn, early in the year CES rationalized its fixed cost structure which involved reduced headcounts, reduced compensation levels, and reductions in discretionary spending. As benchmark oil prices improved in the latter half of 2016, so too did the Corporation's activity levels and resultant financial performance.

Market Share and Activity

CES increased its Canadian drilling fluids market share to 36% and its US drilling fluids market share to 11% in 2016 in a very challenging marketplace. The production and specialty chemicals business experienced 39% annual growth in the estimated number of wells or oilfield sites serviced by the Corporation with production and specialty chemicals (**Treatment Points**) in 2016 as a result of continued organic growth experienced at both JACAM and PureChem and contributions from the Catalyst acquisition.

Capital Expenditures

Expansion capital (**Expansion Capital**) expenditures in 2016 totaled $36.7 million and included the costs to complete the barite grinding facility in Corpus Christi, Texas in Q1 2016, the construction of a new laboratory in the Woodlands, Texas and the continued expansion of its JACAM, PureChem and the recently acquired Catalyst facilities.

Acquisitions

On August 1, 2016, CES acquired all of the production and specialty chemical business assets of Catalyst Oilfield Services, LLC. (the **Catalyst Acquisition**), a West Texas based company with headquarters just outside of Midland, Texas that provides production and specialty chemical solutions for a number of leading oil and natural gas companies. The Catalyst Acquisition will accelerate the expansion of the Corporation's US production and specialty chemicals business with a particular focus in West Texas and the Permian Basin.

Dividends

In response to the deteriorating industry conditions and in order to preserve balance sheet strength and provide liquidity to fund potential growth initiatives, CES reduced its monthly dividend to $0.0025 per common share effective February 2016. As a result, CES declared dividends in 2016 of $10.7 million, resulting in a payout ratio of 70%.

Bought-deal Equity Financing

On June 8, 2016, CES completed a bought deal prospectus offering of 30,670,500 common shares of the Corporation for gross proceeds of $92.0 million. The net proceeds of $87.9 million were used by CES to partially repay outstanding indebtedness under its credit facility, to fund future acquisitions and growth objectives, which included the Catalyst Acquisition in August 2016, and for general corporate purposes.

Senior Credit Facility

On March 29, 2016, CES completed an amendment to its existing senior facility in order to provide CES with the financial flexibility required during this period of low oilfield services activity (**the Senior Facility**). All of the amendments took effect March 29, 2016, and will remain in effect for the full term of the Amended Senior Facility to expiry on September 28, 2018. The principal amendments to the Amended Senior Facility included a voluntary reduction in the borrowing amount from $200.0 million to $150.0 million and certain changes to the Corporation's debt covenants.

2015

Industry Conditions

Benchmark oil and natural gas prices declined throughout 2015 and resulted in significant declines in oilfield services activity levels especially for the Corporation's drilling fluids business. In addition, intense pricing pressure was felt throughout the year and across all business divisions, as customers were focused on managing their near-term lifting costs.

Market Share and Activity

CES maintained its Canadian drilling fluids market share at 34% and increased its US drilling fluids market share to 10% in this difficult market. CES also managed to achieve growth in its production and specialty chemicals business in 2015 as a result of continued organic growth experienced at both JACAM and PureChem.

Capital Expenditures

Expansion capital (**Expansion Capital**) expenditures in 2015 totaled $49.2 million and included the continued construction of a barite grinding facility in Corpus Christi, Texas, the construction of two new laboratories in Calgary, Alberta and Midland, Texas and the continued expansion of its JACAM facilities including the construction of an organo clay production facility.

Acquisitions

On December 9, 2015, CES acquired Sialco Materials Limited (the **Sialco Acquisition**). Sialco is a specialty chemical manufacturer that provides its products and delivers services to a diverse number of customers. The Sialco Acquisition complimented the Corporation's vertical integration strategy and added another high temperature chemical reacting and manufacturing facility which helped augment the Corporation's product lines and capabilities, including some industry leading frac related chemistries and exposure to forestry and consumer products customers.

Dividends

Reflective of the difficult industry conditions and resultant lower activity levels in 2015 CES reduced its monthly dividend from $0.0275 to $0.018 per share in late 2015. In 2015, CES declared dividends of $69.8 million, resulting in a payout ratio of 86%.

Board of Directors

In May of 2015, CES announced the appointment of Mr. Philip J. Scherman, FCA, ICD.D, to its Board of Directors. Mr. Scherman is a Chartered Accountant and currently sits on the board of Mullen Group Ltd. Mr. Scherman is chair of the Corporation's Audit Committee.

Goodwill Impairment

Reflective of the difficult industry conditions and resultant lower activity levels in 2015, CES recorded a goodwill impairment of $154.8 million in the fourth quarter of 2015 with respect to the Corporation's Canadian and US cash generating units.

2014

Industry Conditions

2014 saw oilfield services activity levels peak with benchmark oil prices as customers in North America focused on resource plays targeting oil and natural gas liquids. However, in late 2014, world oil supply outpaced demand and the energy industry rapidly adjusted activity levels to a lower price environment.

Market Share and Activity

CES increased its Canadian drilling fluids market share to 34% and maintained its 8% US drilling fluids market share in 2014. The production and specialty chemicals business saw significant growth in 2014 as a result of organic growth experienced at both JACAM and PureChem and contributions from the Canwell and Southwest Treating acquisitions.

Capital Expenditures

Expansion Capital expenditures in 2014 totaled $66.3 million and included the continued construction of a barite grinding facility in Corpus Christi, Texas, two liquid mud plants in West Texas and the continued expansion of its JACAM facilities.

Acquisitions

During the third quarter of 2014, CES completed three strategic acquisitions. On July 1, 2014, CES completed the acquisitions of all of the business assets of Rheotech Drilling Fluids Services Inc. (**Rheotech**) and of all of the business assets of Canwell Enviro-Industries Ltd. (**Canwell**). Rheotech and Canwell are WCSB based private businesses selling oilfield chemical solutions. These acquisitions strengthened the Corporation's position as a leading provider of drilling fluids and production and specialty chemicals in the WCSB. On September 5, 2014, CES completed the acquisition of all of the oilfield chemical business assets of Southwest Treating Products, LLC. (**Southwest Treating**). Southwest Treating is a west Texas based private oilfield chemical company providing production and specialty chemical solutions for a number of leading oil and natural gas companies. The acquisition of Southwest Treating accelerated the expansion of Corporation's US production and specialty chemicals operations into the west Texas Permian Basin and the Eagle Ford shale in south Texas.

Dividends

Reflective of the Corporation's strong financial performance through 2014, CES increased its dividend three times in the year. As a result, CES declared dividends of $63.2 million in the year, resulting in a payout ratio of 46%.

Bought-deal Equity Financing

On July 11, 2014, CES completed a bought deal prospectus offering of 6,912,000 Common Shares at $10.88 per share for gross proceeds of $75.2 million. The net proceeds of $71.9 million were used by CES to partially repay outstanding indebtedness under its credit facility, to fund future acquisitions and growth objectives, and for general corporate purposes.

Senior Notes Financing

On July 3, 2014, CES completed a private placement of $75.0 million of additional 7.375% senior unsecured notes due on April 17, 2020 at a premium price of $1,057.50 per $1,000.00 principal amount of the original $225.0 million of senior notes issued in April 2013.

Amendments to Senior Credit Facility

On September 5, 2014, CES entered into a new syndicated senior facility with a new banking syndicate which allowed CES to borrow up to $200.0 million. In addition, the new syndicated Senior Facility provided CES an ability to increase its Senior Facility by $100.0 million to a maximum borrowing of $300.0 million.

GENERAL DEVELOPMENT OF THE BUSINESS

Since the Corporation's initial public offering in March 2006, through a combination of strategic acquisitions and organic growth, CES has become 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, our 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, our 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, the Corporation's designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Further, specialty chemicals are used throughout the pipelines and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H2S.

Drilling Fluids

- Providing technology-driven products to allow exploration and production companies to drill more efficiently

Completion & Stimulation

- Supporting and supplying pressure pumpers and other service providers focused on completing and stimulating oil and gas reservoirs

Production

- Providing chemical solutions down-hole and for gathering infrastructure to maximize production and reduce equipment maintenance

Pipelines & Midstream

- Supplying chemicals to increase operating efficiencies and protect infrastructure transporting oil and gas to refineries

Since the Corporation's initial public offering, and including the conversion transaction in 2010, CES has completed fourteen acquisitions of private companies in both Canada and the US, totaling approximately $625.0 million, and has invested approximately $261.0 million in capital expenditures to organically grow its business. The Corporation has acquired companies that it believes had a leadership position in their local markets, are strategically located, and are like minded in the Corporation's approach to customer service and innovation. The Corporation has further grown its business organically through increased market penetration of cost-effective engineered chemical and consumable solutions to its customers. Innovation is a key component to the success of CES, and with the support of CES' customer focused sales and field staff, and supported by its research and development, new solutions are constantly being developed to meet customer needs. As a result of its strategic growth initiatives and efforts to vertically integrate, CES has evolved from a regional supplier of drilling fluids in the WCSB to a recognized industry name and is fast becoming the third largest manufacturer supplying engineered chemical and consumable solutions to the North American oil and natural gas industry.

BUSINESS OF THE CORPORATION

The Corporation's integrated business is organized as follows:

Drilling and Completion Fluids

The Canadian Energy Services and AES brands are focused on the design and implementation of drilling and completion fluids systems for oil and gas producers throughout the North American market (**NAM**). CES earns revenue when it sells a drilling fluid system to an exploration and production entity (**Operator**). In advance of the sale, CES works collaboratively with the Operator to design a drilling fluid system that will clean the hole, stabilize the formation drilled, control subsurface pressures, enhance drilling rates, and protect potential production zones while conserving the environment in the surrounding surface and subsurface. The Corporation has an extensive product line with several proprietary drilling fluid solutions suitable for all of the onshore and shallow water off shore oil and natural gas drilling currently being done in the NAM.

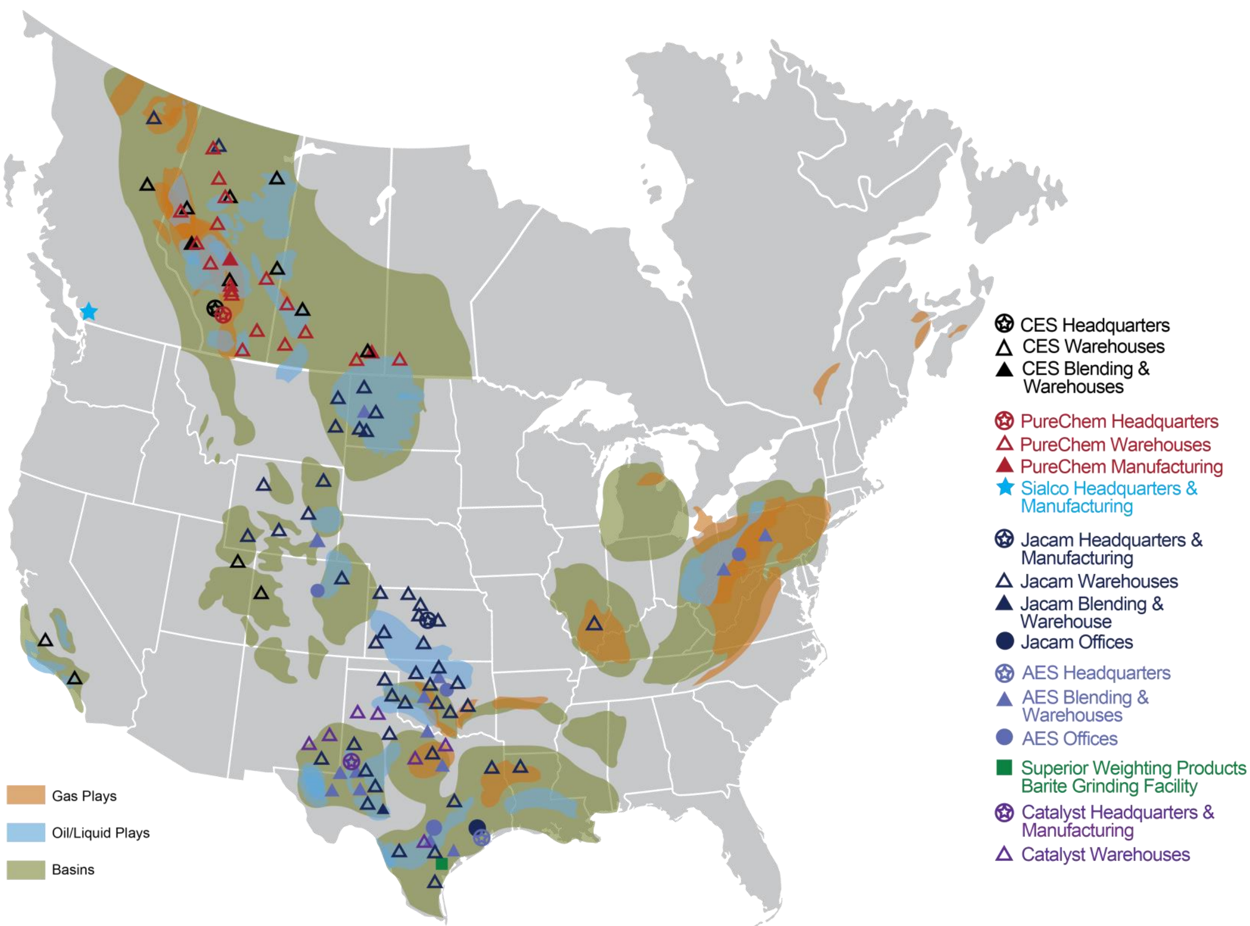
Production and Specialty Chemicals

The JACAM and Catalyst divisions operate in the US, while the PureChem and Sialco divisions operate primarily in the WCSB. All of these brands place an emphasis on servicing the major oil and natural gas liquids resource plays. The JACAM, Catalyst, and PureChem divisions manufacture and sell both to retail and wholesale markets, a complete line of production and specialty chemicals designed for the oil and natural gas production markets, the stimulation and fracturing markets, and the pipeline and midstream markets. Sialco is a primary manufacturer that produces oilfield related chemistries that are then sold through PureChem, JACAM and Catalyst. In addition, Sialco produces chemistries to sell to other industries such as forestry and consumer products.

Two complementary smaller business divisions support the Corporation's operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting to the oil and gas industry primarily around the management and use of water and the disposal of various waste streams.

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 is located in Edson, Alberta.

Below is a map showing the locations of the Corporation's integrated North American operations.



Competitive Strengths

Management believes that the following factors provide the Corporation with a competitive advantage in the oilfield consumable chemical business:

Proprietary and Patented Solutions

CES is a leading provider of consumable chemical solutions throughout the life-cycle of the oilfield. The Corporation's technically advanced consumable chemical solutions are designed to meet client-specific objectives. Through a suite of proprietary and patented systems and products, the Corporation provides a fully integrated approach to the design and execution of oilfield related consumable chemical solutions required by our customers. The proprietary systems and tailored solutions are designed in-house with CES' own laboratory facilities and scientists or with the assistance of the chemical laboratories of the Corporation's suppliers and are customized to address specific customer requirements.

There are currently 46 patents issued to the Corporation in multiple jurisdictions that serve to maintain and protect our competitive position in the oilfield chemicals marketplace. There are also currently 18 patents pending primarily relating to new drilling fluid systems and new production and specialty chemicals products internally developed by CES.

A detailed summary of some of the Corporation's key suite of technically advanced consumable chemical solutions, many of which are proprietary or patented, consists of the following:

Product	Description of Application	Function
Seal-AX ™	• Medium/deep/horizontal drilling fluid	• Provides unique method of reducing seepage and fighting total losses of drilling fluids while drilling in oil-based and water-based muds
Polarbond™	• Medium/deep/horizontal drilling fluid	• Water based shale inhibitor and friction reducing agent
ABS40™	• Vertical/deep/horizontal drilling fluid	• Specialized environmentally friendly synthetic oil based mud system
Cotton Seal™	• Vertical/deep/horizontal drilling fluid	• Whole mud loss agent and seepage loss agent for oil based mud systems
Enerdrill	• Deep/horizontal drilling fluid	• Ultra-lightweight synthetic oil based fluid • Enhances rate of penetration in deep, highly consolidated formations being drilled horizontally
Bond Log Plus	• SAGD drilling fluid	• Enhances quality and integrity of cement jobs in build interval of well
PureStar	• Deep/horizontal drilling fluid	• Environmentally compatible salt free synthetic oil based mud system
Envirobond	• Vertical/horizontal drilling fluid	• Advanced water-based shale inhibitor • Inhibits hydration and migration of fine solids, clays and shales • Prevents damage to heavy oil production zone • Controls mud density
Liquidrill ™	• Horizontal drilling fluid	• Clay-free polymer mud system

Product	**Description of Application**	**Function**
	• Heavy oil • Long reach lateral sections • Long interval sections • SAGD • Multi-lateral horizontal wells • Coalbed methane	• Controls fluid loss • Proven in many multi-hole projects in high risk areas for shallow vertical depths and long reach lateral sections • Non-damaging water-based drilling fluid
Invert/Ecovert	• Deep/vertical/horizontal drilling fluid	• Hydrocarbon based • Maintains stability in highly deviated wellbores • Allows pipe to be tripped without restriction
Enerclear	• Medium and deep/horizontal drilling fluid	• Weighted salt based fluid for increased drill bit life and faster rate of penetration • System has inhibitive qualities
Liquislide Salt	• Medium and deep/horizontal drilling fluid • SAGD and heavy oil drilling fluid	• Provides enhanced lubricity to oil based mud, salt and water based systems
Tarbreak and Tarbreak #2	• SAGD drilling fluid	• Reduces adhesiveness of bitumen • Enables drilling by reducing viscosity
Poly-Core	• SAGD drilling fluid	• Core fluid for bitumen reservoirs • Oilsands delineation drilling
EnerSeal	Medium/deep/horizontal drilling fluid	• Unique rheology profile that mitigates fluid losses in permeable and fractured formations
Enerhib C	• Medium/deep/horizontal drilling fluid	• Corrosion inhibitor for use in salt based drilling fluid systems
Enerscav C	• Medium/deep/horizontal drilling fluid	• Oxygen scavenger for use in salt based drilling fluid systems
Fracturing Additives	• Water based Gellants • Breakers • PH Control • Clay Control • Flow Enhancers • Biocides • Scale Inhibitors • Cross Linkers • Lubricants • Viscoelastic Surfactant Gel • Friction reducer	• Specific chemical additives to enhance performance / efficacy of well fracturing / completions
Production Enhancement	• Acid packages • Surfactants • Solvent packages • Organic acid packages	• Remediates near wellbore damage • Mechanisms to enhance well productivity
Corrosion Control	• Acid gas corrosion protection • Waterflood corrosion inhibitor • Flowline corrosion inhibitor • Pipeline corrosion inhibitor • Downhole corrosion inhibitor	• Control of downhole, plant and pipeline corrosion issues • Specialize in severe corrosion environments

Product	Description of Application	Function
	• Combination products	
Paraffin & Asphaltene	• Pour point depressants • Crystal modifiers • Dispersants • Solvents • Asphaltene dispersants for natural gas and oil	• Control the many problems associated with paraffin and asphaltene deposition in oil and natural gas production • Increase the efficiency of the production process • Reduces operating costs
Scale Inhibitors	• High calcium tolerant • High barium tolerant • High temperature tolerant	• Controls scale deposition in downhole equipment and production facility • Controls the deposition of all forms of carbonate and sulfate scale • Reduces downtime and lost production • Reduces operating costs
Water Treatment	• Flocculants • Reverse demulsifiers • Coagulants	• Chemicals for removing hydrocarbon residue from the water treatment process • Chemicals to remove solids and formation fines from the water treatment process
Emulsion Breakers	• Resolve oil and water emulsions occurring during crude oil production and processing • Assist in the clarification of produced water	• Separate oil from water • Clean water from emulsion separation process and ready for disposal • Reduces operating costs • Can reduce flowline pressures
Foamers & Defoamers	• Foamers from removing H2O from natural gas wells • Defoamers for alleviating foaming in oil and water systems	• Increase the efficiency of the production process
H2S Scavengers	• Removal of H2S from natural gas and hydrocarbon streams and from produced-water	• Ensures pipeline specification natural gas and hydrocarbons • Ensures rail specification oil • Safety
Salt Inhibitors and Desalters	• Reduces formation of salt in the production process • Desalters remove excess salt from oil	• Reduces downtime of wells and lost production • Protects surface equipment from salt deposition
Hydrate Inhibitors Breakers	• Kinetic type hydrate inhibitor • Anti-agglomerate type hydrate inhibitor • Hydrate breakers to remove hydrates after formation	• Designed to control the formation of gas hydrates in pipelines • Reduces downtime of wells and lost production
Anti-Foulants	• Preventing asphaltene deposition in process equipment	• Efficient facility operation • Reduces downtime
Biocides	• Control anaerobic and aerobic bacteria for water injection, water used in completions /	• Water quality maintenance

Product	Description of Application	Function
	fracturing , produced-water and cooling-water systems	
Gas Processing Chemicals	• Dehydration • Heat transfer • Defoamers • Hydrate control	• Natural gas plant processing efficiencies
Solid Chemistries	• Corrosion control • Scale inhibitors • Paraffin control • Foamers • Biocides	• Effective downhole, tank and pipeline application of solid chemistries • Engineered to distribute the chemical treatment at the specific location • Environmentally safe as product design eliminates potential for any spill in transit or on site

Strong Reputation and Diversified Client Base

The Corporation, by its estimated market share, is the largest Canadian drilling fluid systems provider, is growing its market share in the US, and is serving a wide range of Operators, downstream Operators and suppliers in both Canada and the US. The Corporation has a growing presence in Canada in the production and specialty chemical business through its PureChem and Sialco divisions and has an expanding footprint in the US as a result of the Catalyst Acquisition and as JACAM expands its US market presence.

The Corporation's client base represents a cross-section of the North American oil and natural gas industry, including independent junior and intermediate oil and natural gas Operators, large multinational producers and joint ventures, as well as into the pipeline and mid-stream markets. On a smaller scale, the Corporation also wholesales its drilling and completion fluids and its production and specialty chemicals to other oilfield service providers.

The Corporation's business is based in large part on strong client relationships. The Corporation has a well-established client base of approximately 1,500 Operators, downstream Operators, suppliers and industrial customers having operations throughout western Canada and in the US. The top five clients of the Corporation accounted for approximately 22% of its revenues for the year ended December 31, 2016, with one large independent Operator accounting for approximately 10%. The Corporation's ability to design and deliver effective oilfield related chemical solutions has historically led to a high retention rate for clients that have recurring needs for the Corporation's services.

Diversified Operations Serving Key North American Oil and Gas Basins

The Corporation has diversified operations servicing the ongoing major resource plays in North America. In Canada, the Corporation has operations and products sold throughout the WCSB. In the US market, the Corporation has a growing presence with significant operations in both the Eagleford Basin and the Permian Basin, which increased after the Catalyst Acquisition.

Vertical Integration

The Corporation continues to take steps to improve its supply chain to efficiently source its input products and to blend or manufacture the products it supplies to its end customers. In 2011, through its PureChem division, CES established a chemical blending facility in Carlyle, Saskatchewan to blend specialty products for drilling fluids and to blend production and specialty chemical products for completions, stimulations, production and infrastructure associated with hydrocarbon production. In 2013, the JACAM Acquisition significantly expanded the Corporation's chemical blending capabilities and further vertically integrated the Corporation with advanced high temperature chemical reacting capabilities. JACAM's manufacturing facilities located in Sterling, Kansas allow the Corporation to blend and react both the basic molecules and end products provided to customers. The Sialco Acquisition in 2015 further expanded the Corporation's chemical manufacturing capabilities and product offerings with the advanced chemical reacting capabilities of the facilities located in Delta, British Columbia. Most recently, the Catalyst Acquisition expanded the Corporation's production and specialty chemical retail presence and manufacturing capability in West Texas and the Permian Basin. Other recent vertical integration initiatives include the construction of the barite grinding facility at the Port of Corpus Christi, Texas and the construction of an organo clay plant in Sterling, Kansas. Barite and organo clay are key inputs in invert or oil based drilling fluid systems. CES' enhanced vertical integration through the growth of its production and specialty chemicals business that is less cyclical provides revenue stability and a defensible business model.

Experienced and Committed Management and Professional Team

The Corporation has been successful in attracting and retaining talented professionals. The average experience of Management exceeds 25 years. Management's interests are aligned with those of the Corporation and its shareholders through their holding of approximately 12% of the outstanding common shares. See "Escrowed Securities", "Capital Structure" and "Directors and Officers".

Complimentary Environmental Business

Clear provides environmental consulting primarily around the management and use of water and various waste streams primarily to Operators active in the WCSB. The business of Clear involves pre-site assessments, determining the appropriate processes for disposing of water handling or recycling of waste streams produced by drilling operations and carrying out various related services necessary to dispose of drilling fluids. This business line is complementary to the drilling and completion fluids business and provides the Corporation with an opportunity to provide a more integrated service in certain circumstances.

Warehousing and trucking

The Corporation's owned warehouses provide staging facilities in key operating areas for the Corporation to house its own materials and provide trucking support, which allows CES to manage and control inventory of products more efficiently and reduces the reliance on third parties for trucking and warehousing.

Competition

The drilling and completion fluids business is competitive. Three large integrated oilfield service companies control a broad majority of the world-wide drilling fluids marketplace. Drilling and completion fluid companies compete by focusing their efforts on the price of materials, quality of product, technological advantages, and the knowledge and technical expertise of management and field personnel. Management believes that the Corporation's specialty drilling and completion fluids provide significant productivity increases, drilling cost reductions, solutions to environmental issues and solutions to a wide variety of drilling operations, including conventional and heavy oil drilling, and for downhole problems such as water/oil separation, wellbore ballooning and other production specific problems. Management believes that the Corporation will maintain its competitive status by continuing to offer, what Management believes is, state-of-the-art technology in its drilling and completion fluid systems.

The production and specialty chemicals business is a very competitive and a highly consolidated industry. In North America, the number of production and specialty chemicals companies that offer a suite of proprietary products across the life-cycle of the oilfield is presently dominated by two large conglomerates that control approximately 52% of the market. Similar to the drilling fluids business, the Corporation's production and specialty chemicals divisions compete by focusing their efforts on the price of materials, quality and efficacy of the product, capabilities of its research and development team, and the knowledge and technical expertise of its management and field personnel. Management believes that its production and specialty chemicals business can grow in a competitive and consolidated marketplace by leveraging our technical skills and our state-of-the-art facilities as we constantly develop new and innovative solutions to meet our customers' needs.

Target Market

The Corporation focuses on the provision of consumable chemical solutions to Operators across the US and the WCSB. In particular, with respect to the provision of drilling and completion fluids, the Corporation is putting an emphasis on servicing the ongoing major resource plays. The production and specialty chemicals business has a similar focus, however, given the broader application of its product offering, it can expand its target market across all of North America where either on-going activity is occurring, where legacy hydrocarbon production exists or where an industrial or infrastructure related sales opportunity exists.

Marketing and Customer Service

The Corporation markets its technical expertise and services to its broad client base by emphasizing the historical successes of its products, its technologies, and the technical expertise and experience of its personnel. Larger, sophisticated clients generally tender bids for services or approve prime vendors through sales and technical presentations and base selections on price, technical ability, field experience, area knowledge, health, safety and environmental compliance, and overall size and financial strength of the service provider. Smaller clients, suppliers and drilling and completion engineering firms tend to rely on continual technical and professional support, as well as track records of the service provider.

Equipment and Facilities

The Corporation's core oilfield consumable chemicals business is generally not very capital intensive. The Corporation's equipment consists of chemical reacting, manufacturing and blending facilities, oil based drilling fluid storage and mixing facilities, packaged goods warehouses, field trucks, specialty chemical delivery trucks, field testing equipment, information technology equipment, telecommunications equipment, office equipment and facility improvements.

The Corporation's head office and the Canadian drilling fluids and production and specialty chemical businesses headquarters are all located in Calgary, Alberta. AES operates the US drilling fluids business out of the Houston, Texas office, JACAM operates the US production and specialty chemical businesses out of Sterling, Kansas and Catalyst operates its production and specialty chemical operations, focused primarily on the West Texas and the Permian Basin, out of Gardendale, Texas.

CES, in its capacity as operator of the Canadian drilling fluids business, owns two warehouses and truck terminals located in Edson, Alberta, and Carlyle, Saskatchewan. In Canada, CES also rents warehouse space throughout Alberta, British Columbia, Manitoba and Saskatchewan as inventory and stock point locations to facilitate efficient delivery of its drilling fluid products and services to clients. These warehouses are typically owned by trucking companies or oilfield service providers.

AES has operations in thirteen US states that are serviced with seven oil based mud plants in Texas, five additional mud plants located in Oklahoma, Pennsylvania, North Dakota, West Virginia and Wyoming and several rented warehouses and stockpoints.

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

JACAM delivers its products and services in eighteen US states that are serviced through 46 warehouse or stocking points. Eighteen of JACAM's warehouses are owned by the Corporation and are located in Kansas, North Dakota, Colorado, Oklahoma, and Texas. Leased stock point facilities are located in thirteen states providing JACAM a presence in almost all of the major US basins. Catalyst is focused on the West Texas and Permian Basin markets in Texas and New Mexico and services its clients through its network of six owned warehouses and two leased stocking points.

PureChem services its customers from its locations in Carlyle, Saskatchewan and Nisku, Alberta as well as from twenty four stock point locations located in four provinces. Sialco designs and manufactures industry leading fracture stimulation and production chemicals from its state-of-the-art high temperature chemical reacting and manufacturing facility located in Delta BC.

Superior Weighting has a long term lease for its barite grinding facility at the Port of Corpus Christi, Texas. Superior Weighting recently completed the construction of a state of the art barite grinding facility and now supplies custom ground barite to the Corporation's drilling fluids businesses**.**

Our People

As at December 31, 2016, we employed 1,411 employees in Canada and the US and retained the services of approximately 144 consultants. As at March 1, 2017, we employed 1,453 employees and retained the services of approximately 159 consultants.

Procurement

The Corporation has a significant procurement group with specialists located in Calgary, Carlyle, Delta, Sterling, Gardendale and Houston. The Corporation continues to pursue a more focused approach to direct procurement from manufacturers to realize cost savings. Additionally, the Corporation's procurement groups are constantly sourcing more raw materials for use in its manufacturing and blending processes resulting in additional cost savings. These improvements have allowed the Corporation to defend margin integrity in an extremely price conscious environment. As a result of its increasing scale, the Corporation continues to put more emphasis on procurement practices to improve quality, reliability and cost effectiveness of supply.

Health, Safety and Environment

The Corporation has very high standards with respect to environmental, health and safety matters. The Corporation employs rigorous safety and training standards aimed at protecting both the environment and its employees. The Corporation employs certified safety professionals to ensure compliance with all necessary safety and regulatory requirements.

CES is committed to and responsible for providing a safe and healthy work environment and protecting its employees, contractors, visitors, property, environment and the public. The Corporation's business units are committed to meeting or exceeding their respective legislative requirements and to ensuring everyone's right and responsibility to refuse unsafe work. Our projects, product and processes are managed in a way that protects the health and safety of people and minimizes environmental impacts on the communities in which we work.

A health, safety and environment team, which includes professionals certified in safety and industrial/occupational hygiene, is responsible for the development and monitoring of our health, safety and environmental programs and along with all levels of employees, ensures successful implementation of these programs. Our Canadian operations successfully participate in the Certificate of Recognition programs in each province in which we work. The health, safety and environment team utilizes a variety of tools with which to monitor the success of its program including both leading and lagging indicators.

The Health, Safety and Environment Committee of CES' Board of Directors (the **HSE Committee**) is responsible for overseeing the Corporation's health, safety and environmental program and related performance. The HSE Committee regularly monitors the health, safety and environmental policies, practices, procedures and planning of the Corporation for compliance with applicable and proposed legislation, conformity with industry standards, implementation of best practices and prevention or mitigation of losses The HSE Committee also reviews health, safety and environmental metrics, including the Certificate of Recognition program audit results as well as other key areas of focus within the Corporation.

In general, the global oil and natural gas industry and in particular, the Corporation's business, is subject to a complex and increasingly stringent array of laws addressing the actual and potential environmental impacts inherent to the business, including laws governing waste management and the transport, handling, use, deposit or release of potentially hazardous substances into the natural environment. Some of these laws assign potential liability for damages without regard to causation or fault, and provide for joint and several liability for cleanup and other costs in the event of new or historical spills, releases or deposits of hazardous and other substances, including wastes. Other environmental laws provide significant potential penalties for non-compliance, including criminal charges and imprisonment for the most extreme cases. The environmental legal regimes in Canada and the US, which are comprised of a variety of federal, provincial, state and local laws , are among the most stringent in the world, and as a consequence, industry participants incur significant capital and operating costs to maintain compliance.

Insurance

The Corporation maintains insurance, which in Management's view, provides coverage that addresses all material insurable risks, is similar to that which would be maintained by a prudent owner and operator of similar businesses and is subject to deductibles, limits and exclusions that are customary and reasonable given the cost of procuring insurance and current operating conditions. The Corporation insures certain risks through a captive insurance subsidiary CES (Barbados) Indemnity Corp. The Corporation is responsible for obtaining or causing to be obtained a policy of insurance for its directors and officers.

INDUSTRY OVERVIEW

Industry Factors Impacting the Oilfield Chemical Business

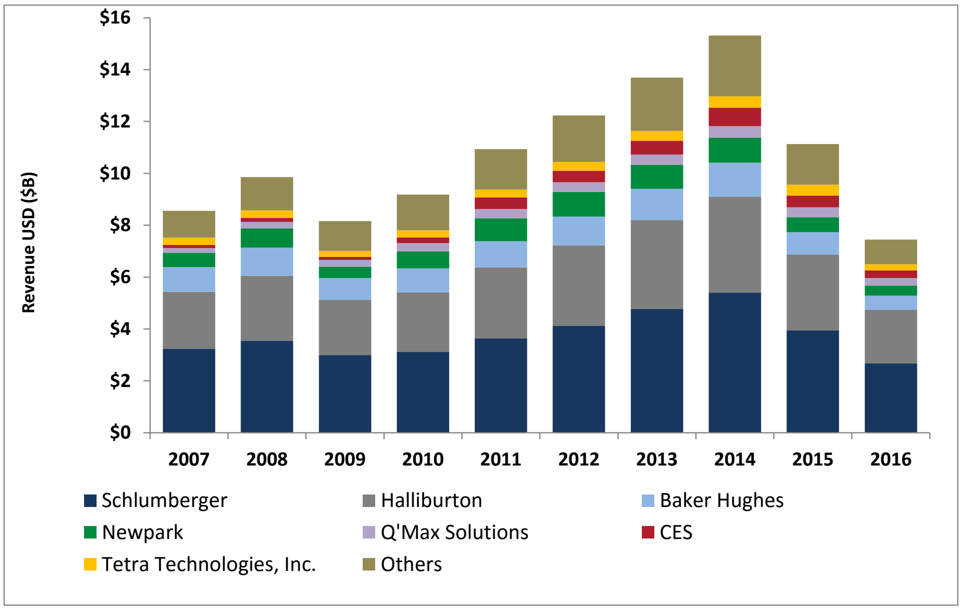
The upstream oil and natural gas industry in the US and Canada is largely comprised of two types of entities: (i) Operators; and (ii) suppliers of oilfield services and consumables (**Suppliers**). Operators generally explore for, develop and produce oil and natural gas reserves. Suppliers generally provide services, products and equipment to assist Operators in their efforts to explore, develop and produce oil and natural gas reserves. The Corporation is focused on being a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield.

Over the last ten years, the vast majority of Operator's capital and activity in the NAM has been directed to the previously uneconomic or marginally economic oil, natural gas liquids, and dry natural gas accumulations that have become economically viable through the application of horizontal drilling and multi-stage fracturing. These "resource plays" typically involve large accumulations of oil, natural gas liquids or natural gas either over a large area and/or vertical section which are often characterized as "tight", meaning they have low productivity, low permeability and/or susceptibility to formation damage. Viable resource plays can achieve enhanced profitability if the wells can be drilled and completed cost effectively, and if long-term production can be enhanced through the use of the appropriate application of production chemicals. Oilfield chemical Suppliers who have experience in developing drilling fluid systems for these types of reservoirs, completion and stimulation chemistries, and production chemicals can assist Operators in minimizing upfront drilling and completion costs and improving long-term reservoir performance. The Corporation has experience working in most of the relevant and active resource plays and provides oilfield chemical solutions to Operators throughout the NAM. As well, the Corporation constantly monitors the development of new resource plays and endeavours to be an "early mover" into a play once a new resource play becomes established.

Industry Factors Impacting the Drilling Fluids Business

As demonstrated in the chart below, the global drilling and completion fluids' market doubled in the period from 2007 to 2014. As a result of falling oil prices and weak North American natural gas prices experienced in 2015 and 2016, rig counts dropped in both the US and Canada resulting in reduced revenues and therefore a shrinking market environment for demand for drilling and completion fluids services.

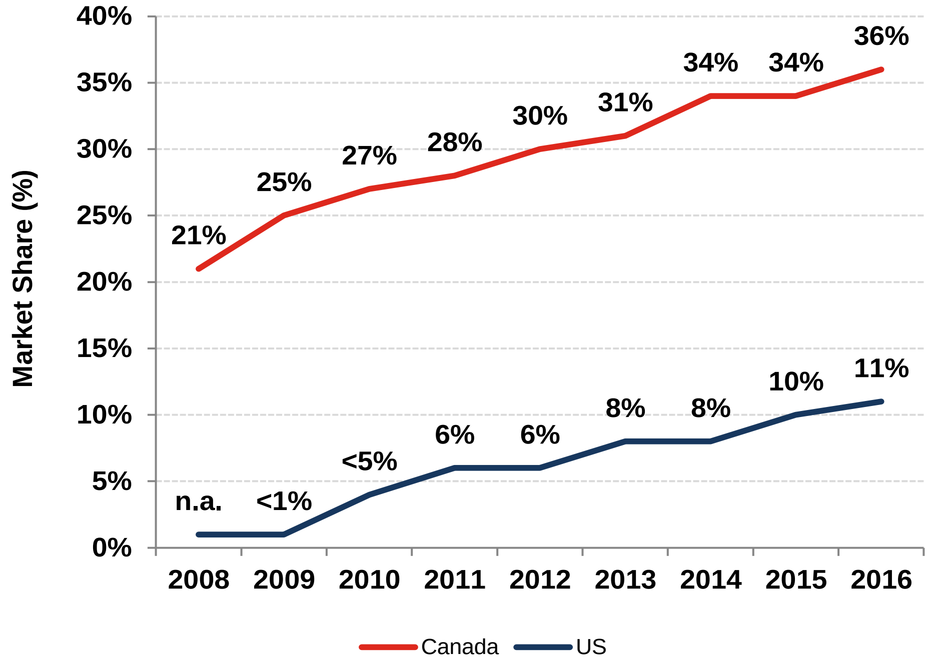
Worldwide Drilling & Completion Fluids Market Size[(1)]



Source: Spears & Associates Inc.
Note:
(1) Others category includes Lubrizol Oilfield Solutions, Scomi Oiltools Bermuda Limited, China Oilfield Services Ltd., Anchor Drilling Fluids USA, National Oilwell Varco, Inc., Superior Energy Services, LLC, Anton Oilfield Services Group Ltd. Secure Energy Services and others not defined explicitly by Spears & Associates Inc.

Since 2008, CES has been able to significantly increase both its US and Canadian market share in the drilling fluids space as depicted in the chart on the following page. Furthermore, CES' US business is poised for growth given its current position in the Permian Basin, with a market share of approximately 15%.

CES US and Canadian Drilling Fluids Estimated Market Share (Source: CES)



Operators base their capital expenditure commitments on many factors, including, but not limited to, hydrocarbon commodity prices, production levels of their current reserves, exploration and development opportunities, political climates and access to both debt and equity capital. Activity levels within the oil and natural gas industry are ultimately affected by the above factors.

Advanced fluids and chemistries are required during the drilling process for most oil and natural gas wells. An effective drilling fluid system can reduce time to drill, increase wellbore stability and maximize recovery from the reservoir, which ultimately impacts the economic return of the well. Given the significant economic benefits that both drilling and completion fluids can provide, Suppliers that have the technical expertise, the experience and the product offering to provide optimal drilling and completion fluid systems can present a compelling value proposition to exploration and production entities.

Trends - Drilling Activity

According to Baker Hughes Inc. the US active on-shore rig count peaked in November 2014 at 1,876 rigs and from this peak, declined in tandem with a drop in oil prices. This drop in oil prices was a result of world supply outpacing demand and OPEC's decision in November 2014 to hold production levels steady in order to defend its global market share. On-shore drilling activity in the US declined steadily through 2015 and reached a trough in May 2016 when the average active rig count bottomed at 380 rigs. The US active rig count improved steadily from June to December 2016, and at the end of 2016 the active rig count stood at 635 rigs, with over half of the incremental US active rigs being reactivated in the Permian Basin.

Drilling activity trends in the WCSB have been consistent with what occurred in the US. As Canada experienced a peak of 411 rigs in October 2014 (according to the Canadian Association of Oilwell Drilling Contractors), a bottoming of rig count at 34 rigs in May 2016, and then a steady increase to 231 rigs by December 2016. Activity in 2015 and the first half of 2016 became concentrated into a smaller number of Operators as many smaller and mid-sized Canadian Operators significantly curtailed or eliminated their drilling budgets in this period in an effort to preserve capital.

As a result of the agreement between both OPEC and certain non-OPEC member states in late November 2016 to cut oil production in an attempt to balance the global crude market, benchmark oil prices have risen from a low in February 2016 to current levels in the low US$50 per barrel. This increase in crude oil pricing, combined with lower oilfield service costs present in the current market, has resulted in a continued increase in US and Canadian active rig count in the first two months of 2017. In 2016, due to the low commodity prices and limited access to capital markets, Canadian Operators were very selective on where to direct their reduced capital budgets for drilling and completions activity. In the US, Management expects the majority of the incremental US active on-shore rigs to be reactivated in the Permian Basin as it has enormous resource potential, the strongest well economics and significant capital has recently been raised by Operators for the development of the Permian Basin.

Despite the volatility in world crude oil pricing, it is expected that Operators in both the US and the WCSB will continue to direct their capital to resource plays that are typically drilled deeper and horizontally, and have longer life reserves and production. Management believes the increased challenge to find new, substantial oil and natural gas liquids reserves in both the US and the WCSB has led some Operators to focus on more complex and deeper reservoir targets.

Horizontal and deeper wells are faced with a range of drilling, stability, pressure and other issues which generally require a greater volume of drilling fluids, a more sophisticated drilling fluid system and a higher level of technical expertise from drilling fluid personnel. In addition, the complexity associated with horizontal wells also increases the importance of effective drilling fluid systems. Wellbore integrity is increasingly difficult to maintain as operators drill the “elbow” or “build” section of the horizontal leg. Accordingly, horizontal wells generally provide more attractive margins for drilling fluid systems providers as the drilling fluid has to be high-graded and becomes more complex to achieve successful drilling outcomes. The Corporation’s drilling related expertise and solutions are focused primarily at horizontal wells. Management’s experience has been that drilling fluid system profitability increases significantly with the depth, the length of the horizontal section, and complexity of the well drilled.

The success of the Corporation’s drilling fluids business is directly correlated to the strength of the oil and natural gas industry in the NAM, and in particular, to the level and complexity of drilling activity of Operators in the NAM. Management believes that volatility in drilling activity can be attributed to a number of key factors, including, but not limited to, hydrocarbon commodity prices, access of Operators to debt and equity capital, availability of appropriately equipped drilling rigs, availability of qualified personnel, expanded use of non-conventional extraction and production techniques, such as SAGD, and activity in new resource plays that are being exploited through the use of multi-stage fracturing techniques applied in horizontal drilling.

Finding and Development Costs

Management believes the combination of the increased depth, the length of the horizontal section, the complexity of wells being drilled and the challenge of finding and developing oil and natural gas reserves has led to increased finding and development costs. As Operators attempt to control costs in the current low commodity price environment, the use of cost effective oil and natural gas services becomes increasingly important. In particular, the drilling fluid systems, while generally a small proportion of the overall cost of drilling, can significantly reduce costs and improve the Operators economic returns. Effective drilling fluid systems can reduce the time to drill, increase wellbore stability and maximize recovery from the reservoir, which ultimately impacts the economic return of the well. Properly designed drilling fluid systems can also minimize the environmental impact of drilling operations and reduce environmental clean-up costs.

Oilsands/Steam Assisted Gravity Drainage

Steam Assisted Gravity Drainage (SAGD) is an extraction process which is used primarily in oilsands development and heavy oil operations and requires specialized drilling fluid solutions. The SAGD process typically involves drilling pairs of horizontal wells into oilsands or heavy oil reservoirs. The upper well injects steam into the deposit in order to heat the bitumen or heavy oil to improve its ability to flow. The oil then drains into the production well and is pumped to the surface. If oilsands development using SAGD as an extraction process grows, SAGD will be a source of increasing revenues for oil and natural gas service companies having expertise in this area. The Corporation currently provides drilling fluid systems to operators drilling wells for SAGD operations, primarily in northeast Alberta, Canada.

Seasonality

Drilling and well completion activity in the WCSB is subject to seasonal fluctuations with peak activity levels often occurring between mid-November to mid-March. The annual WCSB drilling and well completion cycle can generally be separated into four time periods:

1. *Mid-November through mid-March* – winter drilling season; drilling and completion activity is high as this is the period when the majority of drilling activity takes place.

2. *Mid-March through mid-May* – spring break-up; drilling and completion activity is low as the northern drilling locations thaw and southern lands become impractical for travel due to wet road conditions or road bans.

3. *Mid-May through mid-October* – summer and fall drilling season; drilling and completion activity is medium to high in the southern areas that are accessible in the summer.

4. *Mid-October to mid-November* – transitioning to winter drilling season; drilling and completion activity is low to medium as Operators are finishing off their summer and fall drilling programs and preparing for the winter drilling season.

The Corporation's expansion into the US and into the production and specialty chemicals business has helped mitigate some of the historical effects of seasonality on the drilling and completion fluids business as seasonality is not a significant factor to drilling activity in the US. 2012 marked the first year that the majority of the Corporation's revenue came from the US operations. Management anticipates that the US business will continue to be a larger revenue contributor in 2017 than the Canadian business. See "Risk Factors – Seasonality".

Industry Factors Impacting the Production and Specialty Chemicals Business

Through the establishment of PureChem and with the JACAM, Catalyst and Sialco Acquisitions, the Corporation has expanded its chemical consumable offerings into the production and specialty chemicals business. The Corporation is a supplier of: (i) production and specialty chemicals to Operators and owners of downstream oil and gas infrastructure (**Downstream Operators**); (ii) chemicals and additives to other Suppliers or Operators for use in completion or stimulation operations; and (iii) chemicals and additives to the pipeline and midstream markets.

Overall demand for the Corporation's production and specialty chemicals is generally not as cyclical as the drilling fluids business as production and specialty chemicals are typically sold to Operators, Downstream Operators and other Suppliers to support the continuous production, refining and transport needs of their respective operations.

Trends - Production and Specialty Chemicals – Oil and Natural Gas Production

Production and specialty chemicals are used once a well bore starts to produce in order to maximize production levels and to extend the life and economics of both the wellbore and the related equipment that is required to enable the well to produce. Key products that are sold to the Operator include corrosion inhibitors, demulsifiers, H2S scavengers, paraffin control products, surfactants, biocides and scale inhibitors. Production and specialty chemicals are more intensively used in the production of oil or natural gas liquids versus lean or dry natural gas production.

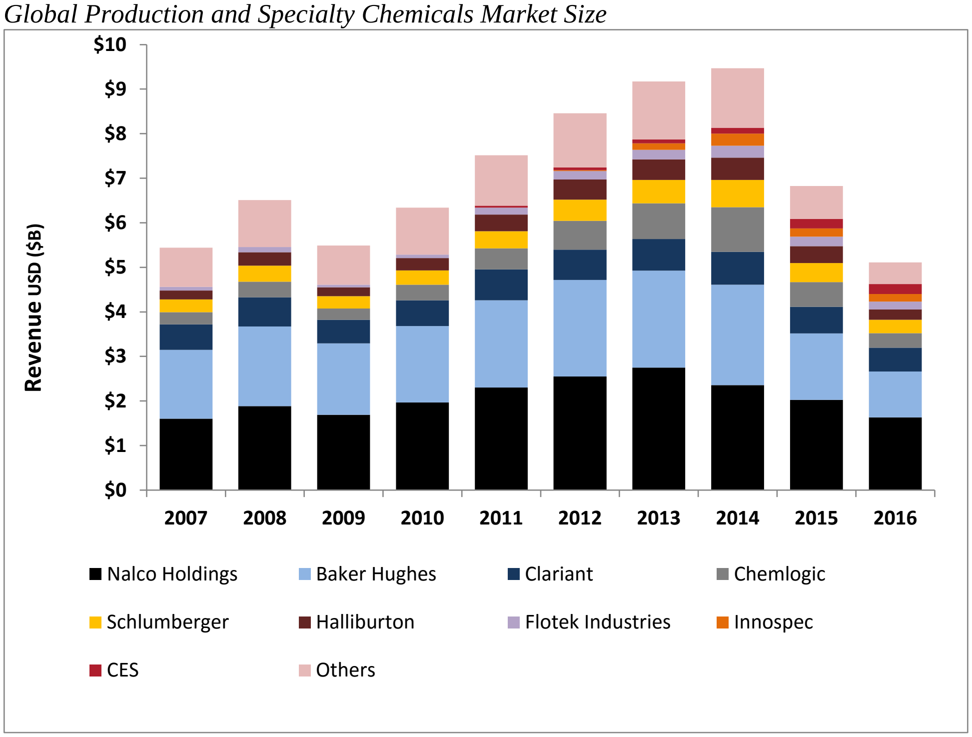
There are a number of trends driving growth in the use of production and specialty chemicals for production applications. The most significant driver of growth is the increasing presence of water in the produced fluids. Water causes numerous complications for Operators including scale, corrosion, bacteria and various other complications all of which require chemical intervention from production stage all the way through to delivery at a refining end-point. Increasing oil production has further driven the demand for production and specialty chemicals as, in general, oil wells have significant volumes of associated water and also often have additional challenges such as paraffin that require chemical intervention to solve. With oil production rising in the NAM, associated water production has increased as well. In addition, generally as oil wells age, the percentage of the produced fluid that is water versus hydrocarbon generally rises often requiring even more chemical intervention.

Furthermore, as the length and depth of wells continue to increase through horizontal drilling, the volume of each well increases, driving demand for more chemicals. Horizontal wells also have more complex production challenges, given their size and structure, and as a result these complex production challenges increase demand for specialty production and specialty chemicals. Secondary (i.e. waterfloods), tertiary (i.e. Alkali Surfactant Polymer flood, CO2 flooding, etc.) and enhanced recovery (i.e. thermal techniques on heavy oil reservoirs) techniques are also becoming more common, and this trend is resulting in an increased demand for specialty chemicals. Oil wells require more production and specialty chemicals, on average, than natural gas wells, and the NAM is currently developing oil wells at an accelerated rate further driving demand.

The marked decline in oil prices from 2014 also has the effect of displacing Operator capital and internal resources away from drilling and completion activities and focusing their attention on production levels from previously drilled wells. This additional attention on production levels typically results in new resources being deployed to operations staff to improve production levels and reduce lifting costs, which often can be achieved with a newly designed production and specialty chemical program or a chemical stimulation treatment for the wellbore. Enacting a new production and specialty chemical program typically can be done in a short time frame and will provide the Operator with critical cash flow during a period of depressed oil prices. Offsetting much of this increased activity and resulting revenue has been intense price discounting on all production and specialty chemicals and an attempt by Operators to optimize the application of chemicals and use less product in the short-term as Operators are increasingly focused on managing near-term cash lifting costs.

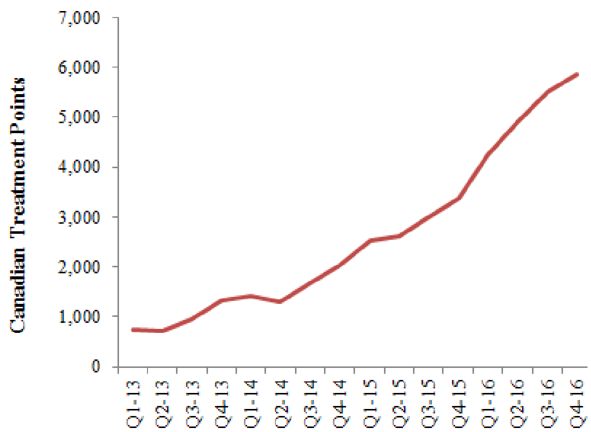
The chart below outlines the global market size of the production and specialty chemicals market. Prior to decline in activity due to falling oil prices and weak North American natural gas prices experienced in 2015, this market grew at a cumulative annual growth rate of approximately 12% per year from 2009 to 2014 mainly as a result of the trends noted above. The market is concentrated with Baker Hughes Inc. (Baker Hughes Inc. ticker: BHI:US) and Ecolab Inc.'s subsidiary Nalco Holdings (Ecolab Inc. ticker: ECL:US, post its acquisition of Champion Technologies in 2013), accounting for approximately 52% of the global market. In North America, CES believes it is in a position to compete with these industry majors as CES believes all of the "other" North American competitors in the marketplace do not have the production and laboratory facilities to be able to design and produce proprietary production and specialty chemicals.

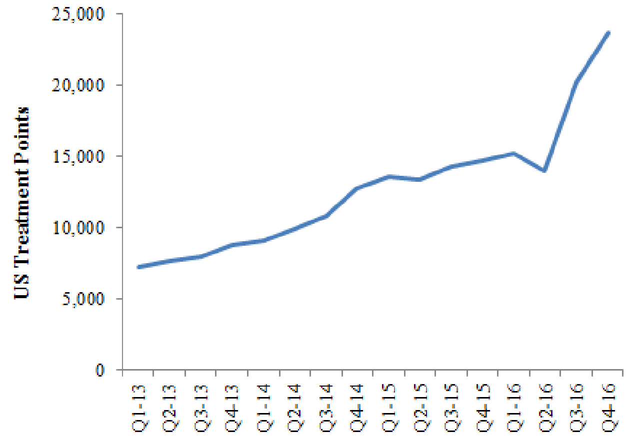
Global Production and Specialty Chemicals Market Size



Source: Global market size data provided by Spears & Associates and CES

Since the JACAM Acquisition in March of 2013, the Corporation's Treatment Points have continued to trend upward as CES has increased its market share in both the US and Canadian production and specialty chemicals markets.





Source: CES

Trends - Production and Specialty Chemicals – Fracturing and Stimulation

Fracturing and stimulation chemicals are pumped down the well, typically with water or oil solutions and proppants, under significant pressure to create cracks (fractures) in the formation. These chemicals are utilized during the completion and production stages of the well to help enhance the well's production.

There are a number of trends driving growth in the use of production and specialty chemicals for fracturing and stimulation applications. The primary driver of growth in these applications has been the shift to multi-stage fracturing of long horizontal wellbores. As Operators increase the intensity and the number of multi-stage fractures they apply in each wellbore, often more chemicals are consumed. Recompletion activity, or well stimulation, focused on maintaining production from previously drilled wells, is also an area of growth as Operators look to optimize production from horizontal wells facing high declines. Given the decline in oil prices from 2014 levels, chemical solutions are often being employed as part of an overall corporate recompletion / optimization strategy.

Continued low oil and natural gas prices, especially in comparison to 2014 levels, has considerably reduced drilling activity in the NAM. As well, many wells that were drilled in 2015 and 2016 were left as drilled and uncompleted. This trend along with price discounting for frac related chemicals resulted in significantly reduced sales of fracturing and stimulation chemicals and was a main contributor to a shrinking market environment for the broader production and specialty chemicals marketplace.

Trends - Production and Specialty Chemicals – Pipelines and Midstream

Production and specialty chemicals are used in midstream operations, in refineries and in pipeline segments to aid in hydrocarbon movement and manage hydrocarbon challenges including corrosion, wax build-up, drag reduction, and scaling. Downstream Operators own and manage pipeline systems, processing facilities that extract sulfur and natural gas liquids, storage facilities for end products, and other transportation systems used to move products (rail for example). Key products sold to the Downstream Operator include corrosion inhibitors, demulsifiers, H2S scavengers, paraffin control products, biocides and scale inhibitors. Demand for production and specialty chemicals for pipelines and midstream operations is less susceptible to fluctuations and cyclicality given the infrastructure nature of their application.

Numerous trends are driving growth in the production and specialty chemicals business that address the pipelines and midstream markets. One major trend is that the North American energy infrastructure market is aging and more money and chemicals are required to maintain operations. With the ever-growing corporate, social and environmental focus on infrastructure, the major Downstream Operators are very focused on maintenance in order to avoid spills and the resultant negative publicity. As oil production on the continent continues to increase and plans advance for the export of LNG, significant new infrastructure, requiring chemicals, will be required. Infrastructure is also increasingly being used for oil and other liquids products that are corrosive and cause waxing issues, both of which require the use of specialty chemicals.

CAPITAL STRUCTURE

Common Shares

CES is authorized to issue an unlimited number of common shares (**Common Shares**). At December 31, 2016 there were 262,300,999 Common Shares outstanding and as at the date hereof, there were 264,201,073 Common Shares outstanding.

The following table summarizes the trading activity for our Common Shares in 2016. Our Common Shares trade on the TSX under the symbol CEU and on the OTCQX exchange in the US under the symbol CESDF.

	TSX (CEU)			**OTCQX (CESDF)**		
2016	**High ($)**	**Low ($)**	**Volume**	**High ($US)**	**Low ($US)**	**Volume**
January	3.95	3.18	17,058,743	2.78	2.25	524,992
February	4.10	2.91	15,756.332	2.89	2.13	510,715
March	3.66	2.97	20,597,840	2.73	2.22	1,089,180
April	3.91	2.85	13,575,434	3.05	2.17	298,899
May	3.87	2.96	13,275,122	2.99	2.26	550,325
June	4.21	3.42	17,750,144	3.28	2.53	239,408
July	4.17	3.36	12,102,030	3.17	2.67	127,663
August	4.88	3.50	20,216,172	3.79	2.70	267,776
September	5.36	4.38	18,157,718	4.03	3.38	370,283
October	5.91	5.13	17,097,682	4.48	3.90	290,886
November	7.14	4.89	17,419,027	5.27	3.67	331,936
December	7.73	7.00	13,257,952	5.69	5.24	319,491

Preferred Shares

CES is authorized to issue an unlimited number of preferred shares (**Preferred Shares**), issuable in series. The Preferred Shares are issuable in series and each class of Preferred Shares have such rights, restrictions, conditions and limitations as the Board of Directors may from time to time determine. The holders of Preferred Shares are entitled, in priority to holders of Common Shares, to be paid ratably with holders of each other series of Common Shares the amount of accumulated dividends, if any, specified to be payable preferentially to the holders of such series and upon liquidation, dissolution or winding up of CES, to be paid ratably with holders of each other series of Preferred Shares the amount, if any, specified as being payable preferentially to holders of such series. As at the date hereof, there were nil Preferred Shares outstanding.

Senior Notes

CES has $300.0 million in principal amount of senior notes outstanding (the **Senior Notes**). The Senior Notes bear interest at a rate of 7.375% and are due April 17, 2020. 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 Corporation’s current and future subsidiaries.

The Senior Notes were issued pursuant to the terms of a trust indenture (**Senior Notes Indenture**) dated April 17, 2013 among Computershare Trust Company of Canada, as trustee, CES and each material subsidiary of CES as a guarantor of CES’ obligations thereunder.

The Senior Notes Indenture contains the terms and provisions governing the Senior Notes, including covenants respecting limitations on restricted payments, limitations on additional indebtedness, limitations on liens, limitations on transactions with affiliates, limitations on asset sales, limitations on conduct of business, provision of financial information, limitations on amalgamations, mergers and consolidations and designation of restricted and unrestricted subsidiaries.

The Senior Notes Indenture also provides: (i) for the early redemption of the Senior Notes by CES on or after April 17, 2017, subject to the payment of redemption premiums and prices set out in the Senior Notes Indenture; and (ii) that, in the event of a change of control of CES, each holder of Senior Notes will have the right to require that CES purchase all or a portion of such holder's notes at a purchase price in cash equal to 101% of the principal amount of such notes plus accrued and unpaid interest.

As at December 31, 2016, CES was in compliance with terms and covenants of the Senior Notes Indenture.

A complete copy of the Senior Notes Indenture may be found under the Corporation's profile on SEDAR at www.sedar.com.

Senior Facility

On March 29, 2016, the Corporation completed an amendment to its Senior Facility. All of the amendments took effect March 29, 2016, and will remain in effect for the full term of the Senior Facility to expiry on September 28, 2018. The principal amendments to the Senior Facility include a voluntary reduction in the borrowing amount from \$200.0 million to a maximum of \$150.0 million and certain changes to the Corporation's debt covenants. In addition, subject to certain terms and conditions, the Corporation may increase its Senior Facility by \$100.0 million to a maximum borrowing of \$250.0 million through an uncommitted accordion feature.

The obligations and indebtedness under the Senior Facility are secured by all of the assets of the Corporation and its subsidiaries and the Corporation and each of its subsidiaries have provided guarantees to the lenders under the Senior Facility.

As at December 31, 2016, CES was in compliance with terms and covenants of the Senior Facility.

A complete copy of the Senior Facility may be found under the Corporation's profile on SEDAR at www.sedar.com.

Shareholder Rights Plan

CES has adopted a shareholder rights plan (**Shareholder Rights Plan**) with an effective date of June 16, 2016. The Shareholder Rights Plan was approved by the Shareholders at the annual general and special meeting of the Shareholders held on June 16, 2016. The Shareholder Rights Plan must be re-approved by the Shareholders at every third annual meeting of the Shareholders following the effective date.

The objectives of the Shareholder Rights Plan are to ensure, to the extent possible, that all Shareholders are treated equally and fairly in connection with any take-over bid or similar proposal to acquire Common Shares of the Corporation. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it would be difficult for the Board of Directors of CES to prepare an adequate response. Such offers may result in our shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in the Corporation. The Shareholder Rights Plan, under which Computershare Trust Company of Canada acts as rights agent, generally provides that, following the acquisition by any person or entity of 20% or more of the Corporation's issued and outstanding Common Shares (except pursuant to certain permitted or excepted transactions) and upon the occurrence of certain other events, each holder of common shares, other than such acquiring person or entity, shall be entitled to acquire Common Shares at a discounted price. A completed copy of the Shareholder Rights Plan was filed on May 19, 2016 as a ''Other Securityholders Documents'' under the Corporation's SEDAR profile at www.sedar.com.

DIVIDEND HISTORY

The Board of Directors has the discretion to determine if and when dividends are declared and the amount that is paid.

Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary significantly based on the Corporation'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.

From the period of January 1, 2010, to November 30, 2015, the Corporation 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 Corporation'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.

The Corporation currently intends to designate all dividends to be "eligible dividends" for the purposes of the Tax Act such that Shareholders who are individuals will benefit from the enhanced gross-up and dividend tax credit mechanism under the Tax Act.

On June 20, 2013, the Shareholders approved a stock settled director fee program. The stock settled director fee program provides directors of the Corporation the opportunity to receive their director fees in the form of Common Shares. The number of Common Shares issued to settle the Corporation's obligations under the stock settled director fee program is calculated using the five day volume weighted average share price prior to the payment date of the director fee.

The following tables set forth the dividends declared by CES on its Common Shares during the years ended December 31, 2014, December 31, 2015, and December 31, 2016:

Dividend Record Date	2014 Monthly Common Share Dividend	Dividend Record Date	2015 Monthly Common Share Dividend	Dividend Record Date	2016 Monthly Common Share Dividend
January 31, 2014	$0.0217	January 30, 2015	$0.0275	January 29, 2016	$0.0180
February 28, 2014	$0.0217	February 27, 2015	$0.0275	February 29, 2016	$0.0025
March 28, 2014	$0.0233	March 31, 2015	$0.0275	March 31, 2016	$0.0025
April 30, 2014	$0.0233	April 30, 2015	$0.0275	April 29, 2016	$0.0025
May 30, 2014	$0.0250	May 29, 2015	$0.0275	May 31, 2016	$0.0025
June 30, 2014	$0.0250	June 30, 2015	$0.0275	June 30, 2016	$0.0025
July 31, 2014	$0.0250	July 31, 2015	$0.0275	July 29, 2016	$0.0025
August 29, 2014	$0.0275	August 31, 2015	$0.0275	August 31, 2016	$0.0025
September 30, 2014	$0.0275	September 30, 2015	$0.0275	September 30, 2016	$0.0025
October 31, 2014	$0.0275	October 30, 2015	$0.0275	October 31, 2016	$0.0025
November 28, 2014	$0.0275	November 30, 2015	$0.0275	November 30, 2016	$0.0025
December 31, 2014	$0.0275	December 31, 2015	$0.0180	December 30, 2016	$0.0025
TOTAL	**$0.3025**	**TOTAL**	**$0.3205**	**TOTAL**	**$0.0455**

CREDIT RATINGS

Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities. The credit ratings assigned by the rating agencies are not recommendations to purchase, hold or sell the securities, as such ratings do not comment as to market price or suitability for a particular investor. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant. A reduction in the Corporation's current corporate credit rating and / or on its senior unsecured notes by its rating agencies or a negative change in the Corporation's ratings outlook could adversely affect the Corporation's cost of financing and its access to sources of liquidity and capital. See "Risk Factors – Risks Relating to Financing, Debt, Access to Capital, Liquidity and Capital Markets – Access to Current and Additional Financing".

The following table outlines the most recent credit ratings received by the Corporation:

	Standard & Poor's Ratings Services (S&P)[(1)]	DBRS Limited (DBRS)[(2)]
Corporate Credit Rating	B-	B
Long-Term Issue Credit Rating (Canadian Energy Services & Technology Corp. - Senior Unsecured Notes)	B-	B
Outlook/Trend	Stable	Negative

Notes:

(1) Credit rating as of April 27, 2016

(2) Credit rating last confirmed on November 29, 2016

Both S&P's and DBRS' corporate credit ratings are forward-looking opinions about an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. The corporate credit rating is an opinion of the ability of the issuer to honour long-term senior unsecured financial obligations and contracts. Long-term issue credit ratings are intended to provide an independent measure of the credit quality of the obligor's long-term debt.

S&P's corporate credit ratings and long-term issue credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such obligors or obligations rated. A credit rating of B by S&P is within the sixth highest of ten categories and indicates that the obligor/obligation is more vulnerable than the obligors/obligations in higher-rated categories, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within the major rating categories.

The outlook assesses the potential direction of a long-term credit rating over the intermediate term. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. The "Stable" rating outlook means that the rating is not likely to change.

DBRS rates long-term debt instruments by rating categories ranging from "AAA" to "C", which represents the range from highest to lowest quality of such securities rated. All rating categories other than AAA and C also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. A rating of B (high) is within the sixth highest of nine categories and is characterized by DBRS to be highly speculative and there is a high level of uncertainty as to the capacity of the obligor to meet financial obligations.

The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. In general, the DBRS view is based primarily on an evaluation of the issuing entity, but may also include consideration of the outlook for the industry or industries in which the issuing entity operates. A "Negative" trend is not an indication that a rating change is imminent. Rather, a Positive or Negative Trend represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a Stable trend was assigned to the security.

The Corporation has paid each of S&P and DBRS their customary fees in connection with the provision of the above credit ratings. CES has not made any payments to S&P and DBRS unrelated to the provision of such ratings.

ESCROWED SECURITIES

The following table sets forth the class, percentage and number of securities of CES that are subject to escrow or contractual restrictions on transfer as at December 31, 2016.

Designation of Class	Number of securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class(5)
Common Shares	485,474 Common Shares(1)	0.19%
Common Shares	289,485 Common Shares(2)	0.11%
Common Shares	638,775 Common Shares(3)	0.37%
Common Shares	7,160,253 Common Shares(4)	2.73%

Notes:

(1) The 485,474 Common Shares are held by the escrow agent in accordance with the terms of the Rheotech escrow agreement pursuant to the Rheotech acquisition. The Rheotech escrow agreement provides that certificates representing 1,456,422 Common Shares held in escrow pursuant to the Rheotech escrow agreement will be released to the former owners of the Rheotech business as to 1/3 on July 1, 2015, 1/3 on July 1, 2016 and 1/3 on July 1, 2017, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(2) The 289,485 Common Shares are held by the escrow agent in accordance with the terms of the Southwest escrow agreement pursuant to the Southwest acquisition. The Southwest escrow agreement provides that certificates representing 868,455 Common Shares held in escrow pursuant to the Southwest escrow agreement will be released to the former owners of the Southwest business as to 1/3 on September 5, 2015, 1/3 on September 5, 2016 and 1/3 on September 5, 2017, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(3) The 638,775 Common Shares are held by the escrow agent in accordance with the terms of the Sialco escrow agreement pursuant to the Sialco acquisition. The Sialco escrow agreement provides that certificates representing 958,163 Common Shares held in escrow pursuant to the Sialco Escrow Agreement will be released to the former shareholders of Sialco as to 1/3 on December 9, 2016, 1/3 on December 9, 2017 and 1/3 on December 9, 2018, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation

(4) The 7,160,253 Common Shares are held by the escrow agent in accordance with the terms of the Catalyst escrow agreement pursuant to the Catalyst acquisition. The Catalyst escrow agreement provides that certificates representing 7,160,253, Common Shares held in escrow pursuant to the Catalyst escrow agreement will be released to the former owners of the Catalyst business as to 1/3 on August 15, 2014, 1/3 on July 15, 2015 and 1/3 on July 15, 2016, respectively, subject in each case to certain industry standard escrow release conditions relating to a "change of control" or take-over bid in respect of the Corporation.

(5) Calculated using the number of Common Shares outstanding as at December 31, 2016 of 262,300,999

DIRECTORS AND OFFICERS

Directors and Officers

The following sets out the respective names, municipalities of residence, positions with CES and principal occupations of the directors and officers of CES for the prior five year period.

Name and Municipality of Residence	Position with CES	Director or Officer of CES[1] Since	Occupation during Last Five Years[1]
KYLE D. KITAGAWA, CA [2][3][5] .... Calgary, Alberta, Canada	Director and Chairman of the Board of Directors	December 9, 2005	Independent Businessman and corporate director since March, 2003.
D. MICHAEL G. STEWART [3][5] .... Calgary, Alberta, Canada	Director	January 5, 2006	Corporate director.
JOHN M. HOOKS [2][5] .... Calgary, Alberta, Canada	Director	December 9, 2005	President, Chief Executive Officer and a Director of PHX Energy Services Corp.
PHILIP J. SCHERMAN [3] Calgary, Alberta, Canada	Director	May 14, 2015	Independent Businessman.
RODNEY L. CARPENTER[4] .... Calgary, Alberta, Canada	Director	December 9, 2005	Independent Businessman.
BURTON J. AHRENS [3][5] .... New York, NY, USA	Director	September 13, 2013	President and Chief Executive Officer of Edgehill Corporation (a diversified venture capital and money management company) since 1992 and former Co-Manager of USIR Capital LLC.
COLIN D. BOYER [2][4] .... Victoria, British Columbia, Canada	Director	December 9, 2005	Independent Businessman.
JASON H. WEST [4] .... Hutchinson, Kansas, USA	Director and President of JACAM	March 7, 2013	President of JACAM Chemicals since 2009.
THOMAS J. SIMONS .... Calgary, Alberta, Canada	Director and President and Chief Executive Officer	December 9, 2005	President and Chief Executive Officer since March, 2006 and prior thereto Vice President and principal of Impact Fluid Systems Inc.
CRAIG F. NIEBOER, CA .... Calgary, Alberta, Canada	Chief Financial Officer	November 17, 2008	Chief Financial Officer since November 17, 2008
KENNETH E. ZINGER .... Calgary, Alberta, Canada	Chief Operating Officer	December 9, 2005	Chief Operating Officer since January, 2006 and prior thereto President of Impact Fluid Systems Inc.
JASON D. WAUGH .... Carlyle, Saskatchewan, Canada	Vice President	March 7, 2013	Vice President CES since March 7, 2013. Prior thereto Division President of the CES from July 2010 to March 2013.

Name and Municipality of Residence	Position with CES	Director or Officer of CES(1) Since	Occupation during Last Five Years(1)
KENNETH D. ZANDEE......................... Calgary, Alberta, Canada	Vice President, Sales and Marketing	December 9, 2005	Vice President, Sales and Marketing since March, 2006 and prior thereto, Vice President and Sales Manager of Canadian Fluid Systems Ltd.
JAMES M. PASIEKA .... Calgary, Alberta, Canada	Corporate Secretary	January 20, 2014	Partner of the national law firm McCarthy Tetrault LLP since September 2013. Prior thereto, partner of the national law firm Heenan Blaikie LLP from 2001 to August 2013.

Notes:
(1) Certain Directors and Officers of CES listed above were originally employed with Canadian Energy Services Inc., the general partner of Canadian Energy Services L.P. prior to its conversion to a publically-traded corporation on January 1, 2010.
(2) Member of the Compensation Committee. Mr. Hooks is the Chair of the Compensation Committee
(3) Member of the Audit Committee. Mr. Scherman is the Chair of the Audit Committee.
(4) Member of the Health, Safety & Environment Committee. Mr. Carpenter is the Chair of the Health, Safety & Environment Committee
(5) Member of the Corporate Governance and Nominating Committee. Mr. Stewart is the Chair of the Corporate Governance and Nominating Committee.

Share Ownership

As a group, the directors and executive officers of CES beneficially own, control or direct, directly or indirectly, 17,909,932 common shares, representing approximately 6.8% of the outstanding Common Shares.

Corporate Cease Trade Orders or Bankruptcies

Except as set forth below, no current director or officer of the Corporation and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, or within 10 years prior to the date of this Annual Information Form, has been, a director or officer of any other issuer that, while such person was acting in that capacity: (i) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any statutory exemption for a period of more than 30 consecutive days; or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Scherman was a director of Parallel Energy Trust (**Parallel**), an oil and gas exploration and production income trust. Parallel filed for bankruptcy protection on March 3, 2016 which proceedings have subsequently been concluded. In 2015, the securities regulators in the Provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, and New Brunswick issued cease trade orders in relation to the securities of Parallel for the failure of Parallel to file financial statements and related management's discussion and analysis, which cease trade orders continue to be in effect. Parallel's trust units and debentures were delisted from the TSX on December 11, 2015.

Personal Bankruptcies

No director or officer of the Corporation (or personal holding company of any such person) and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has, during the 10 years prior to the date hereof, become bankrupt or, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

Penalties and Sanctions

No director or officer of the Corporation (or personal holding company of any such person) and no securityholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority, or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other material penalties or sanctions imposed by a court or regulatory body.

Conflicts of Interest

Certain directors of CES are associated with other companies or entities, including entities engaged in the oil and natural gas industry and the oilfield services business, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with CES are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of CES. See "Risk Factors – Other Risk Factors – Conflicts of Interest".

RISK FACTORS

The following information is a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF and the Corporation's other public disclosure documents, including the managements' discussion and analysis of the financial condition and results of operations for the Corporation for the period ended December 31, 2016. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers remote or immaterial, may also impair the operations of the Corporation and its subsidiaries. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Corporation could be materially adversely affected.

Risks Relating to the Business of the Corporation

Volatility of Industry Activity and Oil and Natural Gas Prices

The success of the Corporation's business depends on the demand, pricing and terms for oilfield services, including drilling fluid systems, production and specialty chemicals, trucking and transportation services, and environmental waste management. These in turn are dependent upon the level of industry activity for oil and natural gas exploration and development in the markets in which CES operates, including the WCSB and the US.

The level of oil and natural gas industry activity is influenced by numerous factors over which the Corporation has no control. The primary such factor is prevailing oil and natural gas commodity prices. Other factors include expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; prevailing royalty rates, fiscal regimes, and regulatory requirements; available pipeline and other oil and natural gas transportation and processing capacity; prevailing weather conditions; global political, military, regulatory and economic conditions; availability of capital for oil and gas exploration and capital budgets; and the ability of oil and natural gas entities to raise equity capital or debt financing.

From mid-2014 to early 2016, oil and natural gas prices fell dramatically, resulting in a significant decrease in the level of industry activity in the WCSB and the US. While oil and natural gas prices have since improved from the first quarter of 2016 and into early 2017, a retracement of oil and natural gas prices to levels seen in early 2016 would likely affect oil and natural gas production levels and therefore reduce the demand for drilling and oilfield services by oil and natural gas clients which may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reliance on Key Personnel

The successful operation of the Corporation's business depends upon the relationships, experience, abilities, expertise, judgment, discretion, integrity and good faith of the Corporation's executive officers, general managers, employees and consultants. In addition, the ability of the Corporation to expand its services and product offerings will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees including drilling fluid technicians, chemists, production and specialty chemical experts is high, and the supply is limited. The inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Reliance on Significant Clients

Certain of the Corporation's clients account for a potentially significant portion of the Corporation's revenues and income. The top five customers of the Corporation accounted for approximately 22% of its revenue for the year ended December 31, 2016, with one large Operator accounting for approximately 10%. There is no guarantee that the Corporation could find new clients to replace the loss of any of its significant clients. A loss of any one or more of these significant clients could have a significant adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Competition

The oilfield service industry is highly competitive and the Corporation competes with a substantial number of companies that have significant technical and financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to provide drilling fluid systems and production and specialty chemical solutions that meet the specific needs of its clients and its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that the Corporation's competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or substantially reduce the price of its products and services that compete with those of the Corporation. There is also no assurance that new or existing competitors will not enter the various markets in which the Corporation is active. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue to the Corporation.

Given the generally reduced levels of activity in the oil and natural gas industry, future and anticipated consolidation of competitors that provide drilling fluid systems and production and specialty chemical solutions is likely. Industry consolidation, should it happen, could result in additional competition in the competitive bidding processes, increased pressure on margins, and may result in lower revenue to the Corporation.

The principal competitive factors in the oilfield chemistry market include the reliability and performance of the recommended and applied chemistries and programs, service quality delivered, technical knowledge and experience, the price of materials, capabilities of research and development teams, environmental and safety certification and price. Reliability and performance of a drilling fluids program is measured by the program's ability to enhance and improve production and to lower overall drilling time and costs.

Proprietary Technology

The success and ability of the Corporation to compete depends in part on the proprietary technologies of the Corporation, and the ability of the Corporation to prevent others from copying such proprietary technologies. The Corporation currently relies on industry confidentiality practices, in some cases by a letter agreement, brand recognition by Operators, the discreet manufacture of many of its products internally, and in some cases patents (or patents pending) to protect its proprietary technology. The Corporation may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not the Corporation is successful.

Despite the efforts of the Corporation, the intellectual property rights of the Corporation may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Corporation may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Corporation's operations will prevent misappropriation or infringement.

Risk of Third-Party Claims for Infringement

A third party may claim that the Corporation has infringed such third party's intellectual property rights or may challenge the right of the Corporation in their intellectual property. In such event, the Corporation will undertake a review to determine what, if any, actions the Corporation should take with respect to such claim. Any claim, whether or not with merit, could be time consuming to evaluate, result in costly litigation, cause delays in the operations of the Corporation or require the Corporation to enter into licensing agreements that may require the payment of a license fee or royalties to the owner of the intellectual property. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation.

Potential Replacement or Reduced Use of Products and Services

Certain of the Corporation's drilling fluid systems and products or production chemical solutions may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Corporation strives to keep current with the changing market for drilling and completion fluids, production and specialty chemical solutions and technological and regulatory changes. If the Corporation fails to do so, this could result in lower revenue to the Corporation.

Performance of Obligations

The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If the Corporation fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate contracts, including master service agreements, exposing the Corporation to loss of its professional reputation, the loss of a project and risk of loss of revenue and reduced profits.

Information Security

The efficient operation of the Corporation's business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyberterrorists. CES has implemented security measures to maintain confidential and proprietary information stored on the Corporation's information systems. However, there is a risk that these measures may not adequately prevent security breaches which could result in business disruption, decreased performance, or increased costs, and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Agreements and Contracts

The business operations of the Corporation may depend on verbal, performance-based agreements with its client base that are cancellable at any time by either the Corporation or its clients. There can be no assurance that the Corporation's relationship with its clients will continue. A significant reduction or total loss of the business from these clients, if not offset by sales to new or existing clients, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Vulnerability to Market Changes

Fixed costs, including leases, labour costs, interest on Senior Notes, and depreciation, account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse effect on the Corporation's financial condition, results of operations and cash flows.

Seasonality

Seasonality is not as much of a factor in the US as drilling activity for the most part can continue throughout the calendar year. However, the level of activity in the oilfield services industry within the WCSB is influenced by seasonal weather patterns. The spring thaw during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oilfield services that may be provided. In addition, municipalities and transportation departments enforce road bans during such times that restrict the movement of heavy equipment. The duration of this period may have a direct impact on the level of the Corporation's activities. The spring thaw typically occurs earlier in the year in southern Alberta and Saskatchewan than it does in northern Alberta and British Columbia. The timing and duration of spring thaw is dependent on weather patterns but generally occurs from mid-March to mid-May. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting the Corporation's equipment utilization rates and revenues.

There is greater demand within the WCSB for oilfield services, including the drilling fluid systems provided by the Corporation, in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield service activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites, and its operating results and financial condition may therefore be adversely affected. The demand for oilfield services, including the demand for all oilfield chemistries, may also be affected by the severity of the Canadian winters. The volatility in the weather and temperature can therefore create unpredictability in activity, which can have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Government Regulation

The operations of the Corporation are subject to a variety of federal, provincial and local laws of Canada and federal, state and municipal laws of the US including regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the emission of greenhouse gases, the operation of equipment used in its operations, the disposal of fluids and other oilfield chemistries used in its drilling fluid systems and the manufacture, management, transportation, storage and disposal of certain materials and equipment used in the Corporation's operations. The Corporation invests financial and managerial resources to ensure such compliance and will continue to do so in the future. Although such expenditures have not historically been material to the Corporation, such laws or regulations are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or impact of such laws and regulations on its future operations. It is not expected that any changes to these laws, regulations or guidelines would affect the operations of the Corporation in a manner materially different than they would affect other oilfield service companies of a similar size.

At an industry level, government regulations with respect to the control and taxation of greenhouse gas emissions could have a material impact on the nature of oil and natural gas operations of the Corporation's customers. A new climate change policy was announced by the Alberta government in the fall of 2015 that resulted in the implementation of a carbon levy effective January 1, 2017. At the federal level, the Canadian government has also indicated that it plans to pursue a carbon pricing scheme. Initial indications are that the Alberta carbon levy is an additional cost for Canadian Operators operating in the province. However, the exact effect of the carbon levy and the impact on CES' business is not determinable at this time. Given the evolving nature of the debate related to climate change and increasing government regulation on this issue, it is not possible to predict with certainty the potential impact of the future changes in Alberta and other jurisdictions for other additional royalties, levies, other taxes on the Corporation and its operations, as well as possible divergence in climate change policies between Canada and the US. .

Trade Relations

The government of the US has publicly announced its interest in renegotiating North American Free Trade Agreement (**NAFTA**) with Canada and Mexico. NAFTA currently prohibits government intervention in the normal operation of the North American energy market, whether in the form of price discrimination through the imposition of export taxes or the direct disruption of supply channels. In addition, NAFTA ensures that North American customers have equal access to oil produced in either country, ensuring a broad demand base for the Corporation's oil and natural gas. It is uncertain whether the government of the US may successfully change or alter the terms of the NAFTA, and what effects those changes may have on the Corporation.

On January 23, 2017, US President Donald J. Trump signed a Presidential Memorandum directing the US Trade Representative to withdraw the US as a signatory to the Trans-Pacific Partnership (**TPP**) and to permanently withdraw the US from TPP negotiations. It is uncertain whether the remaining signatories to the TPP will ratify the TPP or will seek to change or alter the terms of the TPP, and what effects the TPP may have on the Corporation.

US legislators are also considering the adoption of a border adjustment tax which, if adopted, could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Further, unlegislated proposals from the government of the US have contemplated prohibitive actions against foreign businesses competing in the US economy. It is uncertain whether the government of the US will proceed with any proposed or contemplated actions, or the effects those actions may have on the Corporation.

Regulation and Taxation of the Energy Industry

Material changes to the regulation and taxation specific to the energy industry in the jurisdictions in which the Corporation operates may reasonably be expected to have an impact on the oilfield services industry. Generally, a significant increase in the regulation or taxation of the energy industry or material uncertainty regarding such issues may be expected to result in a decrease in industry drilling and production activity in the applicable jurisdiction.

Provincial Royalty Rate Changes

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. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

Corporate Income Tax

The Corporation 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 Corporation'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 Corporation adjusts previously recorded tax expense to reflect audit adjustments. The Corporation asserts that it has 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 provision for income taxes. In addition, there can be no assurance that the Canada Revenue Agency (**CRA**) (or a provincial tax agency), the US Internal Revenue Service (or a state or local tax agency), or the Luxembourg Tax Authorities (collectively the **Tax Agencies**) will agree with how CES calculates its income for tax purposes or that the various Tax Agencies will not change their income tax policies and administrative practices to the detriment of CES or its Shareholders.

Environmental Liability

Certain operations of the Corporation routinely deal with natural gas, oil and other petroleum products, as well as chemical additives used in connection with drilling fluid systems, well stimulations or production chemicals. The Corporation is therefore exposed to potential environmental liability in connection with its business. The

Corporation has programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials, however, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. As a result of its drilling fluid systems and its well stimulation and production chemical solutions, the Corporation will also generate or manage hazardous wastes, such as waste oil and washdown wastes. Although the Corporation enforces a program to identify and address contamination issues before acquiring or leasing properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by the Corporation prior to the Corporation owning, leasing or operating these properties. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Corporation to remove the wastes or remediate sites where they have been released.

In addition, our manufacturing and processing operations are subject to extensive laws and regulations governing the protection of the environment and worker health and safety. Failure to comply with applicable environmental and health and safety laws and regulations could result in injunctions, fines, suspension or revocation of permits and other penalties. While CES strives to achieve full compliance with all such laws and regulations and with its environmental and health and safety permits, there can be no assurance that CES will at all times be in full compliance with such requirements. Activities required to achieve full compliance can be costly and involve extended timelines. Failure to comply with such laws, regulations and permits can have serious consequences, including damage to the Corporation's reputation; negatively impacting the operation; increasing the costs of manufacturing or production and litigation or regulatory action against CES, and may materially adversely affect our business, results of operations or financial condition. Future changes in applicable environmental and health and safety laws and regulations could substantially increase costs and burdens to achieve compliance or otherwise have an adverse impact on the Corporation's business, results of operations or financial condition.

In addition, laws and regulations relating to the environment, including those relating to the emission of greenhouse gases, and which apply to the business and operations of the Corporation are likely to change and become more stringent in the future. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Corporation cannot predict the nature of the restrictions that may be imposed. The Corporation may be required to increase operating expenses or capital expenditures in order to comply with any new environmental restrictions or regulations.

Permits

Our manufacturing and processing operations, including the transportation of products and chemicals and other oilfield activities are subject to extensive permitting requirements. Failure to obtain required permits and/or to maintain compliance with permits once obtained could result in injunctions, fines, suspension or revocation of permits and other penalties. While CES strives to obtain and comply with all of its required permits, there can be no assurance that we will obtain all such permits and/or achieve or maintain full compliance with such permits at all times. Activities required to obtain and/or achieve or maintain full compliance with such permits can be costly and involve extended timelines. Failure to obtain and/or comply with required permits can have serious consequences, including damage to our reputation; negatively impacting manufacturing or operations or regulatory action against CES, and may materially adversely affect our business, results of operations or financial condition.

Sources, Pricing and Availability of Products and Third-Party Services

The Corporation sources its products and third-party services from a variety of suppliers, most of whom are located in North America and increasingly from overseas. Should any suppliers of the Corporation be unable to provide the necessary products or services or otherwise fail to deliver products or services in the quantities required or at acceptable prices, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. In addition, the ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to products, equipment, parts and components. Failure of suppliers to deliver such products, equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain and expand its client list. No assurance can be given that the Corporation will be successful in maintaining the required supply of products, equipment, parts and components. It is also possible that the final costs of the equipment contemplated by the Corporation's capital expenditure program may be greater than anticipated by Management, and may be greater than the amount of funds then available to the Corporation, in which circumstance the Corporation may curtail or extend the timeframes for completing its capital expenditure plans.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in North America and increasingly from overseas. The Corporation believes alternate suppliers exist for all major required raw materials. The availability and supply of materials has been consistent in the past; however in periods of high activity, periodic shortages of certain materials have been experienced and costs may be affected. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our customers could have a material adverse effect on the Corporation's results of operation and cash flows.

Operating Risks and Insurance

The Corporation's operations take place, in part, at well sites and are therefore subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures, and natural disasters which could result in fires, vehicle accidents, explosions and uncontrollable flows of oil, natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. The Corporation's operations also involve the reacting, blending and transporting of volatile and at times toxic chemicals and materials which can result in fires, explosions, burns, respiratory illness and other problems. Although on the drilling and well service side of the business the aforementioned hazards are primarily the responsibility of the Operator who contracts with the Corporation this isn't the situation with the divisions that manufacture production and specialty chemicals and as such these risks could expose the Corporation to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with clients, employees and regulators.

The Corporation has an insurance and risk management program as well as a health and safety program in place to protect its assets, operations and employees and to address compliance with current safety and regulatory standards. In addition, the Corporation continuously monitors its activities for quality control and safety. However, there are no assurances that our safety programs will always prevent risks and hazards and these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

Additionally, even though the Corporation maintains insurance coverage, which it considers adequate and customary in the oilfield services and chemical manufacturing industries, having benchmarked against similar sized companies with similar risk profiles, such insurance is subject to coverage limits and exclusions and may not be available for all the risks and hazards to which the Corporation is exposed. In addition, there can be no assurance that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future. Further, there can be no assurance that the Corporation will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows.

The Corporation self-insures certain risks through its wholly-owned captive insurance subsidiary CES (Barbados) Indemnity Corp. The occurrence of a claim in excess of the insurance coverage limits maintained by the Corporation through its captive insurance company, and/or in excess of the capital reserves retained by the captive insurance company could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows.

Credit Risk

A concentration of credit risk exists in the Corporation's accounts receivable since they are exclusively from companies in the North American oil and natural gas industry. Significant changes in the oil and natural gas industry, including fluctuations in commodity prices and economic conditions, environmental regulations, government policy, royalty rates and geopolitical factors, may adversely affect the Corporation's ability to realize the full value of its accounts receivable. It is not possible to predict the likelihood or magnitude of this risk. The Corporation attempts to mitigate this risk through its credit, invoicing and collections policies, which include procedures such as performing credit checks as considered necessary and managing the amount and timing of exposure to individual customers. The Corporation reviews these procedures on a regular basis.

Foreign Currency Risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Corporation's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the investment in its foreign operations. The Corporation's financial statements are presented in Canadian dollars, however CES uses the US dollar as its functional currency for its operations in the US and those in other foreign jurisdictions, as appropriate. The Corporation attempts to manage its foreign currency risk through the use of forward purchase contracts and financial derivatives. Fluctuations in the exchange rate between the US dollar and the Canadian dollar could negatively impact working capital balances denominated in foreign currencies and on the investment in its foreign operations to the extent that forward purchase contracts and financial derivatives do not fully mitigate the realized changes in foreign currency.

Risks Relating to Past and Future Transactions

Acquisition and Development Risks

The Corporation expects to continue to selectively complete strategic acquisitions. Our ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Corporation's resources, and to the extent necessary, the Corporation's ability to obtain financing on satisfactory terms for acquisitions, if at all. Acquisitions may expose the Corporation to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of the Corporation's operations; entry into markets in which the Corporation has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Corporation's ongoing business; and diversion of management time and resources.

Failure to Achieve Benefits of Acquisitions

The full benefits of any acquisitions completed by the Corporation will require the retention of key personnel; the integration of management, administration and finance functions; and the implementation of appropriate operations, financial and management systems and controls in order to capture the benefits and efficiencies that were anticipated to result from these acquisitions. This will require substantial attention from our management. The diversion of management's attention, as well as any other difficulties that may be encountered in the transition and integration processes, could have an adverse impact on the Corporation's revenues, operating results and cash flows. The Corporation could experience difficulties in effectively integrating the businesses and assets of any acquisitions. If any such difficulties resulted in the Corporation failing to achieve the anticipated benefits resulting from the acquisitions, the Corporation could face higher costs and lower than expected revenue and miss other market opportunities. There can be no assurance that the businesses of any acquisitions will be successfully integrated.

Operational and Business Risks Relating to Acquisitions

The Corporation has conducted business, legal, operational, financial and environmental due diligence on all acquisitions it has completed but there can be no assurance that the Corporation has identified all of the potential liabilities related to these transactions and any acquired businesses and assets. In particular, if the assets of the aforementioned acquisitions prove to be less valuable than anticipated, the Corporation's financial results could be adversely affected.

In addition, any future acquisitions could result in the incurrence of additional debt, costs, and contingent liabilities. The Corporation may also incur costs for and divert management attention to potential acquisitions that are never consummated. For acquisitions that are consummated, expected synergies may not materialize. The Corporation's failure to effectively address any of these issues could adversely affect its results of operations, financial condition and ability to service debt.

Although the Corporation plans to conduct due diligence for future acquisitions, there may be liabilities of the acquired businesses or assets that the Corporation fails or is unable to uncover during its due diligence investigation and for which the Corporation, as a successor owner, may be responsible. When feasible, the Corporation may seek to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor or for other reasons.

Tax Related Risks Associated with the Conversion Transaction

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 US. Pursuant to the Limited Partnership Agreement in place, only persons who were residents in Canada, or, if partnerships were Canadian partnerships, in each case for purposes of the Income Tax Act (Canada), could own Class A Units of CES. CES proactively assessed several options available to expand its equity holding base beyond Canadian residents. In addition, in order to satisfy conditions of the Champion acquisition, CES was required to alter its legal structure. The resulting decision of CES was to pursue the Conversion. The steps pursuant to which the Conversion was effected were structured to be tax deferred to CES and unitholders based on current legislation.

In 2014, the Corporation received a proposal letter from the Canada Revenue Agency (the **CRA**) which stated its intent to challenge the Canadian tax consequences of the Conversion. The CRA's position is based on the acquisition of control rules and the general anti-avoidance rules in the Income Tax Act (Canada). The CRA's proposed reassessment sought to disallow certain tax pools, in which CES would have been obligated to remit cash taxes of approximately $16.0 million for the three taxation years, plus approximately $4.8 million in interest to December 31, 2016. While the Corporation continues to believe its returns were correctly filed and it has not yet received any Notices of Reassessment relating to this matter, it has proposed a settlement offer to the CRA. A current tax expense of $7.0 million has been accrued in the Corporation's December 31, 2016 consolidated financial statements based on the settlement proposal for the estimated cash cost related to the resolution of this tax dispute on the Conversion.

Risks Related to Financing, Debt, Access to Capital, Liquidity and Capital Markets

Access to Current and Additional Financing

The Corporation's ability to access its Senior Facility is directly dependent on, among other factors, certain financial ratios and other restrictive covenants. A breach of any of these covenants, which may be affected by events beyond the Corporation's control, could constitute an event of default which, if not cured or waived, could result in the amounts outstanding on the credit facility to become due and payable immediately. In addition, the Corporation's Senior Facility may, from time to time, impose operating and financial restrictions on the Corporation that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, or disposition of assets, among others.

On March 29, 2016, the Corporation amended certain covenants of its Senior Facility that, at the time, were expected to provide maximum flexibility for the Corporation to withstand a prolonged downturn in oilfield services activity levels. While oilfield activity levels have improved in the second half of 2016 and into early 2017, there is no certainty these higher activity levels, and resultant cash flows will continue. Accordingly, the Corporation may be subject to further operating and financial restrictions pursuant future amendments to our Senior Facility and possibly have to repay amounts outstanding on the facility.

The Corporation may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures, to repay or refinance existing borrowings or to undertake acquisitions or other business combination transactions. The Corporation may, from time to time, have restricted access to capital and increased borrowing costs. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations, refinance its Senior Notes or to fund capital expenditures or acquisitions could limit the Corporation's growth and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Debt Service

The Corporation is indebted to its lenders under the Senior Facility. Principal and interest payable under the Senior Facility have priority over dividends declared on the Corporation’s common shares. Accordingly, the Corporation may have to reduce or suspend dividends in order to ensure debt amounts are paid. In addition, the terms of the Senior Facility impose certain restrictive covenants that may affect the ability of the Corporation to pay dividends.

The Senior Notes Indenture contains detailed restrictive covenants setting out the circumstances, including the satisfaction of certain financial ratios, in which the Corporation is permitted to make dividend payments to its Shareholders. The Senior Notes Indenture would prohibit the Corporation from paying any dividend not in compliance with the provisions of the Senior Notes Indenture and the necessity of complying with such provisions may restrict the Corporation from paying dividends from time to time.

Variations in interest rates and scheduled principal repayments, or the need to refinance all or a portion of the Senior Facility upon expiration, could result in significant changes in the amount required to be applied to service the debt of the Corporation under the Senior Facility before the distribution of any amounts to the Corporation or its shareholders.

There can be no assurance that the amounts available under the Senior Facility will be adequate for the financial obligations of the Corporation. The Corporation may seek other forms of financing which may be dilutive or which may contain restrictions or covenants that could affect the Corporation’s ability to pay dividends or which could otherwise adversely affect the rights of our shareholders.

Capital Markets

The Corporation, along with all participants in the oil and gas and oilfield services industries, may, from time to time, have restricted access to capital and increased borrowing costs. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation’s ability to do so is dependent on, among other factors, the overall state of capital markets and investor demand for investments in the energy industry and the Corporation’s securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation’s ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

At December 31, 2016, the Corporation had approximately $121 million of unused credit available under its Senior Facility.

The ability of the Corporation to fund its growth strategy, including expanding or entering into new lines of business, making selective acquisitions, investing in further inventory or acquiring infrastructure will depend on the Corporation being able to draw on, or increase, its Senior Facility, obtain new credit facilities on reasonable terms or to raise financing through equity and/or debt capital markets. If the Corporation is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to fund its growth strategy which could have an adverse effect on the prospects of the Corporation.

Based on current liquidity available and expected cash from operations, the Corporation believes it has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operations is lower than expected or capital costs for these projects exceed current estimates, if the Corporation incurs major unanticipated expenses related to repairs to equipment, or if the Corporation seeks to acquire other business or business assets, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may have an adverse effect of the Corporation's business and operations, which effect may be material.

Unpredictability and Volatility of Share Price

The prices at which our common shares trade cannot be predicted. The market price of the CES common shares could be subject to significant fluctuations in response to variations in quarterly financial and operating results and other factors. The annual yield on our common shares as compared to the annual yield on other company's common shares or other financial instruments may also influence the price of our common shares in the public trading markets. An increase in prevailing interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of our common shares.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of our common shares.

Ability to Achieve Profitability and Manage Growth

There can be no assurance that the Corporation will be able to achieve profitability in future periods. The Corporation's future operating results will depend on a number of factors, including its ability to continue to successfully execute the Corporation's strategic plan, which includes expanding relationships with existing clients, continuing to attract new clients, improving inventory management and profit margins, developing new products and technologies, acquiring infrastructure to get our products and services to market, developing complimentary business lines, and pursuing selective acquisitions.

There can be no assurance that the Corporation will be successful in achieving the objectives of its strategic plan or that its strategic plan will enable it to maintain its historical revenue growth rates or to sustain profitability. Failure to successfully execute any material part of the Corporation's strategic plan could have a material adverse effect on its business, financial condition, results of operations and cash flows.

There can be no assurance that the Corporation will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on it business, financial condition, results of operations and cash flows.

Risks Relating to the Structure of the Corporation

Cash Dividends to Shareholders are Dependent on the Performance of the Corporation and its Subsidiaries

There is no assurance regarding the amounts of cash to be generated by CES and its subsidiaries and therefore, funds available for dividends our shareholders. The actual amount of cash available for dividends will depend on a variety of factors, including, without limitation, the performance of our operating businesses, the effect of acquisitions or dispositions on CES, and other factors that may be beyond our control. In the event significant sustaining capital expenditures is required by CES or the profitability of CES declines, there would be a decrease in the amount of cash available for dividends.

Our dividend policy is subject to change at the discretion of our Board of Directors. The Corporation's dividend policy is also limited by contractual agreements including agreements with lenders to the Corporation and its affiliates and restrictive covenants and other provisions contained in the Senior Notes Indenture and the Senior Facility.

Leverage and Restrictive Covenants

On March 29, 2016, the Corporation amended certain covenants of its Senior Facility that, at the time, were expected to provide maximum flexibility for the Corporation to withstand a prolonged downturn in oilfield services activity levels. While oilfield activity levels have improved in the second half of 2016 and into early 2017, there is no certainty these higher activity levels, and resultant cash flows will continue. Accordingly, the Corporation may be subject to further operating and financial restrictions pursuant future amendments to our Senior Facility and possibly have to repay amounts outstanding on the facility.

In the event further amendments are required to our Senior Facility, the degree to which the Corporation is financially leveraged at that point in time could have important consequences to our shareholders, including: (i) a portion of the Corporation's cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for dividends on our common shares; and (ii) certain of the Corporation's borrowings will be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates. The Corporation's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

The lenders under the Senior Facility have been provided with security over all of the assets of the Corporation and its guarantors (including the Corporation and the Corporation's other subsidiaries). A failure to comply with the obligations in the agreements in respect of the Senior Facility, including compliance with the financial covenants set out therein, could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Senior Facility were to be accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay in full that indebtedness or that the Corporation would be able to arrange suitable replacement financing.

The Senior Notes Indenture contains the terms and provisions governing the Senior Notes, including covenants respecting limitations on restricted payments, limitations on additional indebtedness, limitations on liens, limitations on transactions with affiliates, limitations on asset sales, limitations on conduct of business, provision of financial information, limitations on amalgamations, mergers and consolidations and designation of restricted and unrestricted subsidiaries. Any breach of such covenants by the Corporation, in particular, any breach of the financial covenants set out in the Senior Notes Indenture, would constitute and event of default that may accelerate the repayment of the Senior Notes. If the repayment of the Senior Notes was accelerated, there can be no assurance that the Corporation's assets would be sufficient to repay in full that indebtedness or that the Corporation would be able to arrange suitable financing to facilitate repayment.

Restrictions on Potential Growth

The payout by the Corporation of a portion of its operating cash flow as dividends will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Corporation and its cash flow.

Issuance of Additional Common Shares

The Corporation may issue an unlimited number of additional common shares and preferred shares without the approval of the Shareholders such that the holders of common shares may be subject to a dilution of their interests. Shareholders have no pre-emptive rights in connection with such additional issuances.

Other Risks

Changes in Laws

Income tax laws and other laws or government incentive programs relating to the oil and natural gas industry may in the future be changed or interpreted in a manner that adversely affects the Corporation and its shareholders. Tax authorities having jurisdiction over the Corporation or its shareholders may disagree with the manner in which the Corporation calculates its income for tax purposes or could change their administrative practices to the Corporation's detriment or to the detriment of our shareholders.

Expenses incurred by the Corporation are only deductible to the extent they are reasonable. Although the Corporation is of the view that all expenses to be claimed by the Corporation should be reasonable and deductible, there can be no assurance that the applicable tax authorities will agree. If the applicable tax authorities were to successfully challenge the deductibility of such expenses, the return to our shareholders may be adversely affected.

Conflicts of Interest

Certain directors of the Corporation are associated with other companies or entities, including entities engaged in the oil and natural gas industry and the oilfield services business, which may give rise to conflicts of interest. In accordance with the Business Corporations Act (Canada), directors who have a material interest in any person who is a party to a material contract or proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation.

Risks Associated with Disclosure Controls and Procedures on Internal Control Over Financial Reporting

The Corporation's business could be adversely impacted if it has deficiencies in its disclosure controls and procedures or internal controls over financial reporting.

The design and effectiveness of the Corporation's disclosure controls and procedures and internal controls over financial reporting may not prevent all errors, misstatements or misrepresentations. While the Corporation's management continues to review the effectiveness of the Corporation's disclosure controls and procedures and internal controls over financial reporting, it cannot assure that the Corporation's disclosure controls and procedures or internal controls over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly material weaknesses, in internal controls over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the Corporation's common share price, or otherwise materially adversely affect the Corporation's business, reputation, results of operation, financial condition or liquidity.

The design of the Corporation's disclosure controls and procedures and internal controls over financial reporting has been limited to exclude controls, policies and procedures of a business that the Corporation has acquired not more than 365 days before its financial year end.

Legal Proceedings

The Corporation is involved in litigation and claims arising in the normal course of operations. Management of the Corporation is of the opinion that pending litigation is not material to the Corporation and will not have a material adverse effect on the Corporation's financial position or results of operations. However, results of litigation may differ materially from Management's expectations. In addition, future legal proceedings could be filed against the Corporation and no assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed in this AIF, none of the directors or senior officers of CES, and no security holder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, and no associate or affiliate of any of the foregoing has a material interest in any transaction involving the Corporation or in any proposed transaction which has materially affected or is reasonably expected to materially affect the Corporation.

AUDIT COMMITTEE INFORMATION

The disclosure regarding the Corporation's Audit Committee required under National Instrument 52-110, adopted by the Canadian securities regulatory authorities, is contained in Appendix "A" of this AIF. The Charter of the Audit Committee is contained in Appendix "B" of this AIF.

LEGAL PROCEEDINGS

There are no legal proceedings involving claims for damages in an amount exceeding 10% of the Corporation's current assets to which CES is or was a party to or in respect of which any property is or was subject during the year ended December 31, 2016, nor are there any such proceedings known to the Corporation's management to be contemplated.

MATERIAL CONTRACTS

Other than in the ordinary course of the Corporation's business or as set out below, there are no material contracts that have been entered into by the Corporation in the most recently completed financial year, or before the most recently completed financial year, that are still in effect.

On March 29, 2016, the Corporation completed an amendment to its existing Senior Facility. All of the amendments took effect March 29, 2016, and will remain in effect for the full term of the Senior Facility to expiry on September 28, 2018. The principal amendments to the Senior Facility include a voluntary reduction in the borrowing amount from $200.0 million to $150.0 million and certain changes to the Corporation's debt covenants. The original Senior Facility was executed on September 5, 2014, was renewed on September 30, 2015 and March 29, 2016, remains in effect and is a material contract to CES. See "Capital Structure – Senior Facility" for further information.

As at December 31, 2016, CES was in compliance with terms and covenants of its lending agreements.

As at December 31, 2016, CES had $300.0 million of outstanding principal on its unsecured Senior Notes due on April 17, 2020. The Senior Notes Indenture remains in effect and is a material contract to CES. See "Description of Capital Structure – Senior Notes" for further information.

INTERESTS OF EXPERTS

Deloitte LLP is the auditor of the Corporation and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc. at its principal offices in Calgary, Alberta, and Toronto, Ontario.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on the internet on the Corporation's SEDAR profile at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Corporation's information circular dated May 12, 2016 for the annual general and special meeting of Shareholders held on June 16, 2016. Additional financial information is provided in the Corporation's audited consolidated financial statements for the year ended December 31, 2016, and the accompanying management's discussion and analysis of financial conditions and results of operations for the year ended December 31, 2016. Shareholders who wish to receive printed copies of these documents free of charge should contact the Corporation using the contact information included on the final page of this AIF.

SCHEDULE "A"
AUDIT COMMITTEE DISCLOSURE

PURSUANT TO NATIONAL INSTRUMENT 52-110

Overview

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities of oversight and supervision of, among other things:

- the annual audit and quarterly interim review of the financial statements of the Corporation, managing the relationship with the independent auditor and meeting with the independent auditor as required in connection with the audit services provided by the auditor;
- the pre-approval of the non-audit services provided by the independent auditor;
- the accounting and financial reporting practices and procedures of the Corporation;
- the adequacy of the internal controls and accounting procedures of the Corporation;
- the quality and integrity of the financial statements and MD&A of the Corporation; and
- the compliance by the Corporation with legal and regulatory requirements which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole.

The Audit Committee Charter

The Audit and Committee Charter is attached hereto as Schedule "B".

Composition of the Audit Committee

The Audit Committee is comprised of four directors; Messrs. Scherman (Chair), Ahrens, Kitagawa, and Stewart, all of whom are independent in accordance with National Instrument 52-110 and are financially literate within the meaning of National Instrument 52-110. See "Directors and Officers".

Relevant Education and Experience

All members of the Audit Committee possess the work experience and education necessary to understand the accounting principles used by the Corporation to prepare its financial statements, the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves, experience preparing, analyzing or auditing financial statements that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements and an understanding of internal controls and procedures for financial reporting.

Below are brief biographies for the members of the Audit Committee which illustrate the relevant education and experience of each such member.

Name	Principal Occupation and Biography
Philip J. Scherman FCPA, FCA, ICD	Mr. Scherman is a chartered accountant and currently serves on the board of Mullen Group Ltd. and The Calgary Foundation. Mr. Scherman was an engagement partner at KPMG from 1982 to 2012 for public and private energy and energy service entities. Mr. Scherman also served on the KPMG Canada Board of Directors for six years. Mr. Scherman is a member of the Canadian and Alberta Institutes of Chartered Accountants and was awarded the Fellow of the Chartered Accountants designation.
Burton J. Ahrens	Burt Ahrens is the President of the Edgehill Corporation, a diversified venture capital company with a bias towards energy and energy-related

Name	Principal Occupation and Biography
	investments. Mr. Ahrens was Co-Manager of USIR Capital LLC, an opportunistic growth-oriented hedge fund and the Chairman of Edgehill Select group, LLC, the sponsor of an umbrella trust that has registered and listed seven sub-funds on the Dublin Stock Exchange. Mr. Ahrens was a founder and President of Oil Fields Systems Corp., which in 1985 was acquired by Snyder Oil Corporation and its publicly traded affiliate, American Oil Fields, PLC. He was also Chairman of Perkins Drilling Company, then the largest drilling company in Ohio at the time of its sale in December 1980. Mr. Ahrens is or has been a director of several public and private corporations. A graduate of Cornell and Yale Law School, where he was an editor of the Yale Law Journal, Mr. Ahrens practiced law with Cravath, Swaine & Moore and was founding Senior Partner of Feit & Ahrens.
Kyle D. Kitagawa, CA	Kyle Kitagawa brings over 30 years of experience in commodity trading, equity investing, and structured finance in energy and energy intensive industries. Prior to April 2003, he held senior executive positions in a global energy trading and capital corporation. Currently, Mr. Kitagawa serves as a Director of Zargon Oil & Gas Ltd. and Managing Director of North River Capital Corp. He holds a Master of Business Administration degree from Queen's University, a Bachelor of Commerce from the University of Calgary and is a Chartered Accountant.
D. Michael G. Stewart	Michael Stewart is a corporate director. He also serves on the Boards of Directors of TransCanada Corporation and its subsidiary TransCanada Pipelines and Pengrowth Energy Corporation. Prior thereto, Mr. Stewart held several positions at Westcoast Energy Inc. (Westcoast") from 1993 to 2002 when Westcoast was acquired by Duke Energy Corporation. The positions Mr. Stewart held at Westcoast and its subsidiary and affiliate companies included Executive Vice President, Business Development of Westcoast, responsible for the development of Westcoast's power, international and major new projects; President of Westcoast Energy International Inc.; Chairman of Westcoast Power Inc.; Chairman of the Management Committee of Maritimes & Northeast Pipeline Limited Partnership; and Co-Chief Executive Officer of Foothills Pipelines Ltd. Before joining Westcoast Mr. Stewart held a number of executive positions with companies involved in the energy, fertilizer and sulphur businesses. Mr. Stewart graduated from Queen's University with a Bachelor of Science degree in Geological Sciences. He is a member of the Institute of Corporate Directors and the Association of Professional Engineers and Geoscientists of Alberta (non-practicing).

External Auditor Service Fees

The following table sets out the aggregate fees billed by the Corporation's external auditor for the years ended December 31, 2015, and December 31, 2016.

Period Ended	Audit Fees(1)	Audit-Related Fees(2)	Tax Fees(3)	All Other Fees(4)
December 31, 2015	$612,471	Nil	$289,465	Nil
December 31, 2016	$597,672	Nil	$165,139	Nil

Notes:

(1) Audit Fees are comprised of the aggregate fees billed by the Corporation's auditor. The Corporation has been billed for professional services for the audit of the Corporation's annual consolidated financial statements and reviews of the Corporation's quarterly financial statements, as well as services provided in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees are comprised of the aggregate fees billed for assurance and related services by the Corporation's external auditor that are reasonably related to the performance of the audit review of the Corporation's financial statements and are not reported under note (1) above.

(3) Tax Fees are comprised of the aggregate fees billed for professional services rendered by the Corporation's external auditor for tax compliance, tax advice, and tax planning.

(4) All Other Fees are comprised of the aggregate fees billed for products and services provided by the Corporation's external auditor, other than the services reported under notes (1), (2), and (3), above.

SCHEDULE "B"
AUDIT COMMITTEE CHARTER

PART I
ESTABLISHMENT OF COMMITTEE

1. Committee Purpose

The Audit Committee (the "**Committee**") is established by the board of directors (the "**Board of Directors**") of Canadian Energy Services & Technology Corp. (the "**Corporation**") for the purpose of overseeing the accounting and financial reporting processes of the Corporation, including the reviews and audits of the financial statements of the Corporation.

The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities by monitoring, among other things:

(a) the Corporation's financial accounting and reporting processes;

(b) the quality and integrity of the financial statements and related disclosure of the Corporation;

(c) compliance by the Corporation with legal and regulatory requirements that could have a material effect upon the financial position of the Corporation which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole;

(d) the independent auditor's qualifications and independence; and

(e) the performance of the Corporation's independent auditor.

2. Composition of Committee

The Committee shall consist of as many members as the Board of Directors shall determine, but in any event not fewer than three directors of the Corporation, provided that each member of the Committee shall be determined by the Board of Directors to be:

(a) an "unrelated" and "independent" director as defined in, and for the purposes of, any applicable governance guidelines or listing standards of any stock or securities exchange upon which the securities of the Corporation are, from time to time, listed; and

(b) an "independent" and "financially literate" director for the purposes of any applicable corporate, securities or other legislation or any rule, regulation, instrument, policy, guideline or interpretation under such legislation, including, but not limited to, National Instrument 52-110 – *Audit Committees*, promulgated under the *Securities Act* (Alberta).

3. Appointment of Committee Members

The members of the Committee shall be appointed by the Board of Directors. The members of the Committee shall be appointed at the time of each annual meeting of shareholders and shall hold office until the next annual meeting, until they are removed by the Board of Directors or until their successors are earlier appointed, or until they cease to be directors of the Corporation.

PART II
COMMITTEE PROCEDURE

4. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board of Directors and shall be filled by the Board of Directors, by resolution, if the membership of the Committee is fewer than three directors. The Board of Directors may remove and replace any member of the Committee.

5. Committee Chair

The Board of Directors shall appoint a chair (the "**Chair**") for the Committee. The Chair may be removed and replaced by the Board of Directors.

6. Absence of Chair

If the Chair is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

7. Secretary of Committee

The Committee shall appoint a Secretary who need not be a director of the Corporation.

8. Regular Meetings

The Chair, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least quarterly to review and recommend for approval to the Board of Directors the interim or annual financial statements of the Corporation, as applicable. The Committee at any time may, and at each regularly scheduled Committee meeting shall, meet without management present and shall meet periodically with management and the independent auditor of the Corporation. The Committee shall also meet separately with the independent auditor at every regularly scheduled meeting of the Committee at which the independent auditor is present and shall also meet separately with the Chief Financial Officer at every regularly scheduled meeting of the Committee.

9. Special Meetings

The Chair, any two members of the Committee, the independent auditor or the President and Chief Executive Officer of the Corporation may call a special meeting of the Committee.

10. Quorum

A majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

11. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or by e-mail or facsimile communication to each member of the Committee at least 48 hours prior to the time fixed for such meeting; provided, however, that a member may, in any manner, waive notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

12. Agenda

The Chair shall develop and set the Committee's agenda, in consultation with other members of the Committee and management of the Corporation. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

13. Delegation

The Committee shall have the power to delegate its authority and duties to subcommittees or individual members of the Committee as it deems appropriate.

14. Access

In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of the Corporation.

15. Attendance of Others at a Meeting

At the invitation of the Chair, one or more officers, directors or employees of the Corporation may, and if required by the Committee shall, attend a meeting of the Committee.

16. Procedure, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board of Directors when the Committee may deem appropriate (but not later than the next meeting of the Board of Directors).

17. Outside Consultants or Advisors

The Committee, when it considers it necessary or advisable, may retain, at the Corporation's expense, outside consultants or advisors (including independent counsel) to assist or advise the Committee independently on any matter within its mandate. The Committee shall have the sole authority to retain or terminate such consultants or advisors, including the sole authority to approve the fees and other retention terms for such persons.

PART III
COMMITTEE TERMS OF REFERENCE - AUDIT

18. Appointment of the Corporation's Independent Auditor

Subject to confirmation by the independent auditor of its compliance with regulatory registration requirements, the Committee shall recommend to the Board of Directors the appointment of the independent auditor for the purpose of preparing or issuing any audit report or performing other audit, review or attest services for the Corporation, such appointment to be confirmed by the Corporation's shareholders at each annual meeting. The Committee shall be responsible for the approval of the engagement letter with the independent auditor, the approval of fees to be paid to the independent auditor for audit services and shall pre-approve the retention of the independent auditor for any permitted non-audit service. The Committee shall also be directly responsible for the oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The Committee shall communicate directly with the independent auditor. The independent auditor shall report directly to the Committee.

The Committee shall review the independence of the independent auditor including a written report from the independent auditor delineating all relationships between the independent auditor and the Corporation, considering whether the advisory services performed by the independent auditor during the course of the year have affected its independence, and ensuring that no relationship or service between the independent auditor and the Corporation is in existence that may affect the objectivity and independence of the auditor, or recommending appropriate action to ensure the independence of the independent auditor.

19. Specific Mandates

The Committee, to the extent required by applicable laws or rules, or otherwise considered by the Committee to be necessary or appropriate, shall:

(a) Oversight in Respect of Financial Disclosure

(i) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:

A. the audited annual financial statements;

B. the annual information form;

C. the annual management's discussion and analysis;

D. the portions of the management proxy circular, for any annual or special meeting of shareholders, containing significant financial information respecting the Corporation;

E. all financial statements included in prospectuses or other offering documents;

F. any significant financial information contained in all prospectuses and all documents which may be incorporated by reference in a prospectus;

G. any significant financial information respecting the Corporation contained in a material change report, business acquisition report or press release;

(ii) review, discuss with management and the independent auditor, and recommend to the Board of Directors for approval:

A. the unaudited interim financial statements of the Corporation;

B. the quarterly management's discussion and analysis of the Corporation;

C. the interim reports of the Corporation;

(iii) review and discuss with management:

A. each press release which contains significant financial information respecting the Corporation (including, without limitation, annual and interim earnings press releases) or contains earnings guidance, prior to public dissemination thereof;

B. the use of "pro forma" or "adjusted" non-GAAP information;

C. financial information and earnings guidance provided to analysts and rating agencies; provided, however, that such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) and in accordance with the Disclosure and Media

Policy of the Corporation, and the Committee need not discuss in advance each instance in which the Corporation may provide earnings guidance or presentations to rating agencies;

(iv) review with management and the independent auditor the scope of the audit, in particular the independent auditor's view of the Corporation's accounting principles as applied in the financial statements in terms of disclosure quality and evaluation methods, inclusive of the clarity of the Corporation's financial disclosure and reporting, degree of conservatism or aggressiveness of the Corporation's accounting principles and underlying estimates, and other significant decisions made by management in preparing the financial disclosure and reviewed by the independent auditor;

(v) review with management and the independent auditor major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls and procedures for financial reporting and management information systems and inquire of management and the independent auditor about significant risks and exposures to the Corporation that could significantly affect the Corporation's financial statements;

(vi) review with management and the independent auditor, and satisfy itself as to the adequacy of the procedures that are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of those procedures;

(vii) review with management and the independent auditor (including those of the following that are contained in any report of the independent auditor): (a) all critical accounting policies and practices to be used by the Corporation in preparing its financial statements; (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of these alternative treatments, and the independent auditor's assessment of the alternatives; and (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;

(viii) review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet transactions on the Corporation's financial statements;

(ix) review the plans of management and the independent auditor regarding any significant changes in accounting practices or policies and the financial and accounting impact thereof;

(x) review with management, the independent auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters have been disclosed in the financial statements;

(xi) review disclosures by the Corporation's President and Chief Executive Officer and Chief Financial Officer with respect to any required certification for the Corporation's financial statements by such individuals; and

(xii) discuss with management the Corporation's material financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's financial risk assessment and financial risk management policies and insurance policies.

(b) *Oversight in Respect of Legal and Regulatory Matters*

(i) review, if necessary, with legal counsel, the Corporation's compliance policies, legal matters and any material reports or inquiries received from regulators or governmental agencies that could have a material effect upon the financial position of the Corporation and which are not subject to the oversight of another committee of the Board of Directors or the Board of Directors as a whole.

(c) *Oversight in Respect of the Chief Financial Officer and Finance Director*

(ii) consult with management on management's appointment, replacement, reassignment or dismissal of the Chief Financial Officer of the Corporation; and

(iii) ensure the Chief Financial Officer of the Corporation and the Finance Director of the Corporation have access to the Chair, the Chairman of the Board of Directors and the Chief Executive Officer of the Corporation, and shall meet separately with the Chief Financial Officer of the Corporation and the Finance Director of the Corporation to review any problems or difficulties he or she may have encountered in the performance of his or her responsibilities and report to the Board of Directors on such meetings.

(d) *Oversight in Respect of the Independent Auditor*

(iv) meet with the independent auditor prior to the annual audit to review the planning and staffing of the audit;

(v) review annually the independent auditor's formal written statement of independence delineating all relationships between itself and the Corporation and review all such relationships;

(vi) receive confirmation from the independent auditor as to its standing as a "participating audit firm" and its compliance with any restrictions or sanctions imposed by the Canadian Public Accountability Board as those concepts are set forth in National Instrument 52-108 of the Canadian Securities Administrators;

(vii) review and evaluate the independent auditor, including the lead partner of the independent auditor team;

(viii) meet separately with the independent auditor to review with them any problems or difficulties they may have encountered and specifically:

A. any difficulties which were encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management; and

B. any changes required in the planned scope of the audit;

and report to the Board of Directors on such meetings;

(ix) review and approve the engagement letters of the independent auditor for the interim quarterly reviews and annual audit of the financial statements of the Corporation; and

(x) review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of the Corporation's present and former independent auditor.

(e) Oversight in Respect of Audit and Non-Audit Services

(xi) have the sole authority to pre-approve all audit services (which may entail providing comfort letters in connection with securities underwritings) and all permitted non-audit services, other than non-audit services where:

A. the aggregate amount of all such non-audit services provided to the Corporation or its subsidiaries constitutes not more than 5% of the total amount of fees paid by the Corporation (and its subsidiaries) to the independent auditor during the fiscal year in which the non-audit services are provided;

B. such services were not recognized by the Corporation (or any subsidiary) at the time of the engagement to be non-audit services; and

C. such services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee; and

(xii) delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this section; provided that the decision of any member to whom authority is delegated to pre-approve an activity shall be presented to the Committee at the first scheduled meeting following such decision, and provided further that, if the Committee approves an audit service within the scope of the engagement of the independent auditor, such audit service shall be deemed to have been pre-approved for purposes of this section.

(f) Oversight in Respect of Certain Policies

(xiii) establish procedures for: (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and

(xiv) periodically review the Corporation's Disclosure and Media Policy, Insider Trading Policy and any other policies the Committee deems appropriate for the performance of its oversight responsibilities.

20. Oversight Function

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with generally accepted accounting principles. These are the responsibilities of management and the independent auditor. The Committee and its Chair are members of the Board of Directors, appointed to the Committee to provide broad oversight of the financial risk and control related activities of the Corporation, and are specifically not accountable nor responsible for the day to day operation or performance of such activities. The role of all Committee members is to oversee the process, not to certify or guarantee the accuracy or completeness of the external audit of the Corporation's financial information or public disclosure.

PART IV
GENERAL

21. Self-Evaluation

The Committee shall conduct an annual performance self-evaluation and shall report to the Board of Directors the results of the self-evaluation.

22. Review of Committee's Charter

The Committee shall assess the adequacy of this Charter on an annual basis and recommend any changes to the Board of Directors.

23. Non-Exhaustive List

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight responsibilities.

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