MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto of Canadian Energy Services & Technology Corp. ("CES" or the "Company") for the years ended December 31, 2016 and December 31, 2015, and CES' 2016 Annual Information Form. This MD&A is dated March 9, 2017, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

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

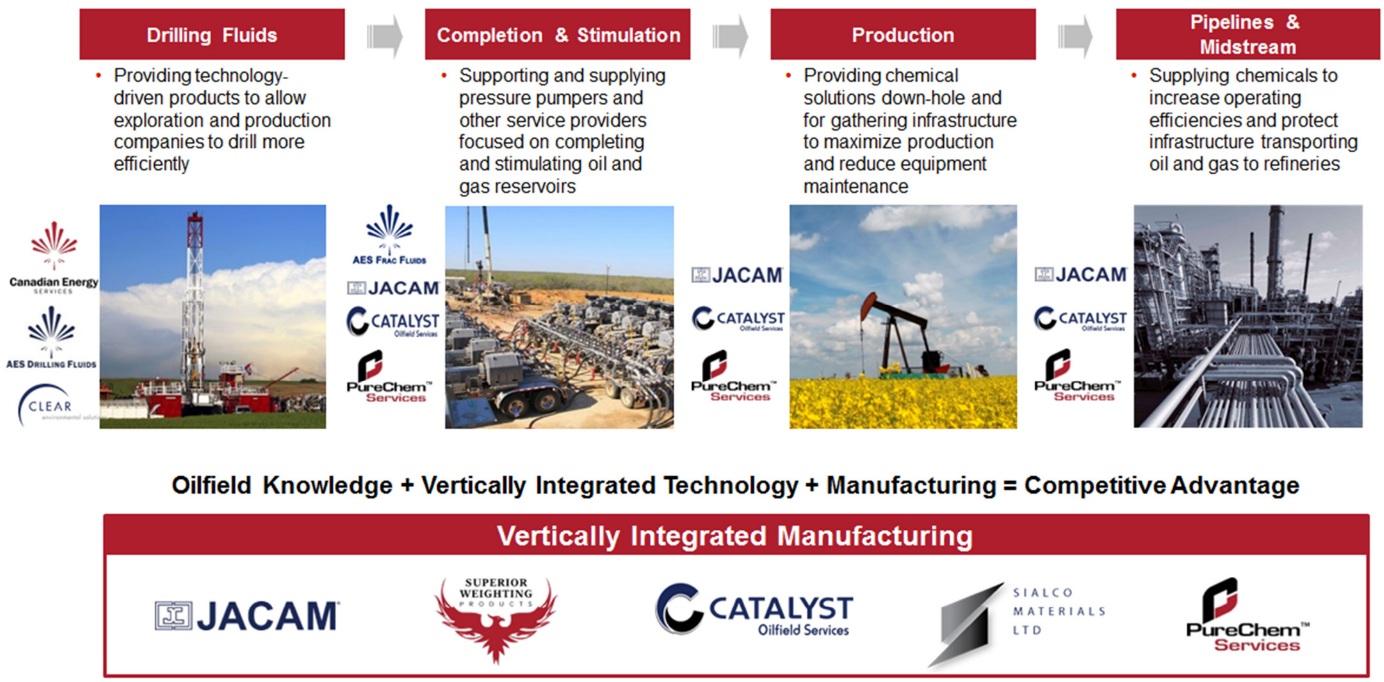
In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business; the anticipated reduction in exposure to the effects of spring break-up in the WCSB; the duration of spring break-up; the certainty and predictability of future cash flows and earnings; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC, with excess cash generated and available sources of capital to fund growth capital and M&A activity; future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2017, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and PureChem facilities; management's opinion of the impact of any potential litigation or disputes; potential outcomes of the CRA's intent to challenge the Canadian tax consequences of the Conversion (as defined herein); the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES' financial statements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies and the results of any U.S. trade credit insurance claims; management's opinion of the impact of self-insuring trade credit insurance; CES' ability to increase or maintain its market share, including expectations that PureChem and JACAM will increase market share in the oilfield consumable chemical market and Catalyst will increase market-share of production and specialty chemicals in the Permian Basin; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and speciality chemical sales and expected growth in the consumable chemicals market; expectations that CES will rationalize its drilling fluids cost structure; estimated annualized savings as a result of staff reductions, compensation adjustments, and reduced dividend payments; industry activity levels; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime; expectations regarding expansion of services in Canada and the U.S.; development of new technologies; expectations regarding CES' growth opportunities in Canada and the U.S.; the effect of acquisitions on the Company including the effect of the Catalyst Acquisition (as defined herein); expectations regarding the performance or expansion of CES' operations; expectations regarding the diversification of operations away from the drill-bit; expectations that competitor consolidation and business failures will provide future opportunities to CES; expectations regarding demand for CES' services and technology; the potential for CES to expand its business as it relates to water usage and handling; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the U.S., and internationally; geopolitical risk; fluctuations in demand for consumable fluids and chemical oilfield services, and any downturn in oilfield activity; a decline in activity in the WCSB, the Permian and other basins in which the Company operates; a decline in frac related chemical sales; a decline in operator usage of chemicals on wells; an increase in the number of customer well shut-ins;volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; the declines in prices for oil, and pricing differentials between world pricing and pricing in North America; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the U.S. dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; reassessment and audit risk associated with the Conversion and other tax filing matters; changes and proposed changes to U.S. policies including the potential for tax reform, possible renegotiation of international trade agreements including NAFTA, and potential Border Adjustment Tax; divergence in climate change policies between Canada and the U.S.; potential changes to the crude by rail industry;changes to the fiscal regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2016 and "Risks and Uncertainties" in this MD&A.

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

BUSINESS OF CES

CES is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. At the drill-bit, CES' designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CES' designed chemicals form a critical component of fracturing solutions or other forms of well stimulation techniques. The shift to horizontal drilling and multi-stage fracturing with long horizontal well completions has been responsible for significant growth in the drilling fluids and completion and stimulation chemicals markets. At the wellhead and pump-jack, CES' designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Key solutions include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipeline and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H_2S.



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

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

Two complementary business divisions support the operations and augment the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting, water management services, and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB. EQUAL is CES' transport division, providing its customers with trucks and trailers specifically designed to meet the demanding requirements of off-highway oilfield work in the WCSB.

EQUAL transports and handles oilfield produced fluids and supports the oilfield chemical business by hauling, handling, managing and warehousing products.

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

CES' business model is relatively asset light and requires limited re-investment capital to grow. As a result, CES has been able to capitalize on the growing market demand for drilling fluids and production and specialty chemicals in North America while generating free cash flow.

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

NON-GAAP MEASURES

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

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Net loss	**(3,973)**	(114,402)	**(64,550)**	(92,276)
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**9,495**	8,577	**35,779**	31,830
Depreciation on property and equipment in G&A	**1,236**	1,194	**4,970**	3,726
Amortization on intangible assets in G&A	**5,315**	4,983	**20,459**	19,438
Interest expense, net of interest income	**5,947**	5,754	**22,945**	23,406
Amortization of capitalized deferred financing costs	**321**	317	**1,271**	1,311
Current income tax expense (recovery)	**229**	(5,351)	**2,199**	(13,494)
Deferred income tax expense (recovery)	**140**	(53,422)	**3,295**	(46,453)
Stock-based compensation	**5,531**	6,996	**17,696**	25,979
Unrealized foreign exchange (gain) loss	**(53)**	(210)	**26**	(205)
Unrealized derivative (gain) loss	**(699)**	(1,081)	**2,928**	(2,914)
(Gain) loss on disposal of assets	**(358)**	289	**(1,570)**	151
Impairment of goodwill	**-**	154,829	**-**	154,829
Other loss (income)	**3**	-	**178**	(11,628)
EBITDAC	**23,134**	8,473	**45,626**	93,700

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
EBITDAC	**23,134**	8,473	**45,626**	93,700
Add back (deduct):				
Additional bad debt allowance	**(878)**	994	**1,139**	994
Restructuring costs	**162**	461	**2,215**	461
Inventory writedowns	**1,420**	5,565	**1,420**	5,565
Other non-recurring costs	**-**	915	**-**	915
Adjusted EBITDAC	**23,838**	16,408	**50,400**	101,635

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

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

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

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

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

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

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2016**	2015	% Change	**2016**	2015	% Change
Revenue	**187,704**	164,958	14%	**567,726**	749,614	(24%)
Gross margin	**39,983**	24,906	61%	**111,781**	159,659	(30%)
as a percentage of revenue	**21%**	15%		**20%**	21%	
Cash Gross Margin (1)	**49,120**	33,772	45%	**145,990**	191,640	(24%)
as a percentage of revenue	**26%**	20%		**26%**	26%	
Loss before taxes	**(3,604)**	(173,415)	(98%)	**(59,056)**	(152,223)	(61%)
per share – basic	***(0.01)***	*(0.79)*	*(99%)*	***(0.24)***	*(0.70)*	*(66%)*
per share - diluted	***(0.01)***	*(0.79)*	*(99%)*	***(0.24)***	*(0.70)*	*(66%)*
Net loss (2)	**(3,973)**	(114,402)	(97%)	**(64,550)**	(92,276)	(30%)
per share – basic	***(0.02)***	*(0.52)*	*(96%)*	***(0.27)***	*(0.42)*	*(36%)*
per share - diluted	***(0.02)***	*(0.52)*	*(96%)*	***(0.27)***	*(0.42)*	*(36%)*
EBITDAC (1)	**23,134**	8,473	173%	**45,626**	93,700	(51%)
per share – basic	***0.09***	*0.04*	*125%*	***0.19***	*0.43*	*(56%)*
per share - diluted	***0.09***	*0.04*	*125%*	***0.19***	*0.43*	*(56%)*
Funds Flow From Operations (1)	**16,973**	7,844	116%	**20,522**	83,848	(76%)
per share – basic	***0.06***	*0.04*	*50%*	***0.08***	*0.38*	*(79%)*
per share - diluted	***0.06***	*0.04*	*50%*	***0.08***	*0.38*	*(79%)*
Dividends declared	**1,965**	16,027	(88%)	**10,736**	69,849	(85%)
per share	***0.0075***	*0.0730*	*(90%)*	***0.0455***	*0.3205*	*(86%)*

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

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and twelve months ended December 31, 2016, in comparison to the three and twelve months ended December 31, 2015, for CES are as follows:

- The financial results reported herein for the three months ended December 31, 2016 ("Q4 2016") are reflective of the turnaround in the oil and gas industry which, in response to improved commodity prices, saw activity levels improve as the second half of 2016 progressed. As a result, the financial performance of CES in Q4 2016 has consistently improved in comparison to the results achieved for the three months ended December 31, 2015 ("Q4 2015"). Contrasting this on an annual basis, because of the depth and duration of the downturn, the full year results for CES for the year ended December 31, 2016 ("FY 2016") are consistently worse in comparison to the results achieved for the twelve months ended December 31, 2015 ("FY 2015").

- EBITDAC for Q4 2016 was $23.1 million as compared to $8.5 million for Q4 2015, representing an increase of $14.6 million or 173%. Reflective of the challenging 2016 oilfield market experienced in North America, EBITDAC for FY 2016 decreased $48.1 million or 51% to $45.6 million for the year ended December 31, 2016 as compared to EBITDAC of $93.7 million for the year ended December 31, 2015. The Company's Adjusted EBITDAC for Q4 2016 was $23.8 million representing an increase of $7.4 million or 45% from Q4 2015. Year-to-date, the Company's Adjusted EBITDAC was $50.4 million representing a decrease of $51.2 million or 50%. Year-over-year, the Company's operating results were negatively affected by the current low commodity price environment and by the additional factors outlined below.

- CES generated revenue of $187.7 million during Q4 2016, compared to $165.0 million for Q4 2015, an increase of $22.7 million or 14%. The increase is primarily attributable to the Catalyst Acquisition, for which there was no revenue in the comparable quarter, and sales achieved on the increased Canadian Treatment Points for PureChem. Year-to-date, revenue totaled $567.7 million, compared to $749.6 million for the year ended December 31, 2015, representing a decrease of $181.9 million or 24% on a year-over-year basis. Year-to-date revenue was negatively affected by a decline in industry activity and an overall reduction in revenue due to the cumulative effects of continued price discounting conceded to customers across all business units as the industry downturn deepened. Offsetting these negative factors was the year-over-year increase in US Treatment Points as a result of the Catalyst Acquisition, an increase in Canadian Treatment Points as PureChem continued to gain market share, and the positive translation effect on US source revenue due to the devaluation of the Canadian Dollar ("CAD") versus the US Dollar ("USD") specifically for the year-to-date revenues.

- Revenue generated in the US for Q4 2016 was $120.9 million compared to $109.9 million for Q4 2015, an increase of $11.0 million or 10%. For the year ended December 31, 2016, US revenues were $371.8 million compared to $514.9 million for the same period in 2015, representing a decrease of $143.1 million, or 28%. US Treatment Points rose 61% in Q4 2016 in comparison to Q4 2015, and by 31% year-over-year, primarily as a result of the Catalyst Acquisition. However, US revenues for both the quarter and year-to-date were negatively affected by the following: a decline in frac related chemical sales as industry activity slowed; operators reducing their chemical usage on wells to try and optimize their chemical spend; customer well shut-ins; and the cumulative effects of the price discounting on all products as customers remained focused on managing near-term cash lifting costs. Revenues in the US were also negatively affected by reduced industry rig counts and the continued difficult pricing environment for the drilling fluids business. For the year ended December 31, 2016, the Company's US revenues were positively impacted on translation by weakness in CAD versus USD over the comparable period in 2015.

- Revenue generated in Canada for Q4 2016 was $66.8 million compared to $55.0 million for Q4 2015, an increase of $11.8 million or 21%. For the year ended December 31, 2016, revenue in Canada was $195.9 million compared to $234.7 million in the same period in 2015, representing a decrease of $38.8 million or 17%. Throughout the quarter and year-to-date, PureChem continued to gain market share in Canada in production chemicals as Canadian Treatment Points have increased from the comparative period, however these gains in market share have been offset by price discounting and customers optimizing their chemical spend. During Q4 2016, the drilling fluids business increased its operating days by 30% over Q4 2015 however this growth was tempered by continued price pressure resulting in additional discounting to customers. Year-to-date, the revenue from the drilling fluids business was negatively affected by the year-over-year decline in drilling activity in Canada and discounting.

- In Q4 2016, CES recorded Cash Gross Margin of $49.1 million or 26% of revenue, compared to Cash Gross Margin of $33.8 million or 20% of revenue generated in the same period last year. The improvement in Cash Gross Margin as a percentage of revenue in Q4 2016 is a result of the positive effects of cost reduction initiatives taken earlier in 2016, combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. CES has seen Cash Gross Margin percentage improve in the second half of 2016, however the Q4 2016 Cash Gross Margin percentage was slightly behind the immediately preceding Q3 2016 as a result of one-time negative inventory adjustments at year-end, higher costs of manufacturing winterized products in the production and specialty chemicals businesses, and the addition of some new but lower margin work related to water handling at Clear. Year-to-date, CES recorded Cash Gross Margin of $146.0 million or 26% of revenue compared to $191.6 million or 26% of revenue generated in the same period in 2015. Cash Gross Margin as a percentage of revenue was consistent year-over-year, however, as a result of the cumulative effects of the protracted downturn and the industry recovery in the second half of FY 2016, on a comparative basis the first half of FY 2016 was worse than the first half of FY 2015. The reverse was true for the second half of FY 2016, which achieved improved Cash Gross Margin percentage when compared to the second half of FY 2015. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.

- CES recorded a net loss of $4.0 million in Q4 2016 as compared to a net loss of $114.4 million in the prior year. CES recorded a net loss per share of $0.02 ($0.02 diluted) for the three months ended December 31, 2016 versus $0.52 ($0.52 diluted) in Q4 2015. For the year-to-date period, CES recorded a net loss of $64.6 million compared to a net loss of $92.3 million in 2015. CES recorded a net loss per share of $0.27 ($0.27 diluted) for the year ended December 31, 2016 versus $0.42 ($0.42 diluted) in 2015. The respective year-over-year decrease in net loss was primarily a result of the goodwill impairment of $154.8 million recorded in the fourth quarter of 2015 and from the factors discussed above. For both the quarter and year-to-date periods ended December 31, 2016 the Company's net loss was impacted by higher depreciation and amortization charges. For the year ended December 31, 2016, the Company's net loss was also impacted by the provision for the proposed tax settlement relating to the Conversion recorded in the second quarter and as outlined below in "Current and Deferred Income Taxes".

- At December 31, 2016 CES had a net draw of $nil on its Amended Senior Facility and a cash balance of $13.4 million. As at December 31, 2016 CES had capitalized transaction costs pertaining to the Amended Senior Facility of $0.6 million (December 31, 2015 – $0.4 million, net of capitalized transaction costs of $0.5 million). Based on the Senior Funded Debt to trailing EBITDA ratio, the maximum available draw on the Amended Senior Facility at December 31, 2016, was approximately $121.4 million (December 31, 2015 - $200.0 million). In response to increased activity levels requiring CES to build working capital, as at the date of this MD&A, the Company had a net draw of approximately $45.0 million on its Amended Senior Facility. At December 31, 2016, CES is in compliance with the terms and covenants of its Amended Senior Facility.

- At December 31, 2016, the Company had $300.0 million of outstanding principal on unsecured Senior Notes due on April 17, 2020 (December 31, 2015 - $300.0 million). The Senior Notes bear interest of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The Company has the option to redeem all of its outstanding Senior Notes on or after April 17, 2017. At December 31, 2016, CES is in compliance with the terms and covenants of its Senior Notes.

- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $222.3 million as at December 31, 2016 (December 31, 2015 – $230.2 million).

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

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

- During Q4 2016, CES declared monthly dividends totalling $0.0075 per share as compared to $0.073 per share for the same period in 2015. During Q4 2016, the Company's Payout Ratio averaged 13% as compared to 221% in Q4 2015. Year-to-date, the Company's Payout Ratio averaged 70% as compared to 86% in 2015. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000s, except per share amounts)	**2016**	2015	$ Change	% Change
Revenue	**187,704**	164,958	22,746	14%
Cost of sales	**147,721**	140,052	7,669	5%
Gross margin	**39,983**	24,906	15,077	61%
Gross margin percentage of revenue	**21%**	15%		
General and administrative expenses	**37,804**	41,055	(3,251)	(8%)
Finance costs	**5,780**	2,437	3,343	137%
Goodwill impairment	**-**	154,829	(154,829)	100%
Other loss	**3**	-	3	n/a
Loss income before taxes	**(3,604)**	(173,415)	169,811	(98%)
Current income tax expense (recovery)	**229**	(5,351)	5,580	(104%)
Deferred income tax expense (recovery)	**140**	(53,422)	53,562	(100%)
Net loss	**(3,973)**	(114,642)	110,669	(97%)
Less: net income attributable to non-controlling interest	**-**	(240)	240	(100%)
Net loss attributable to shareholders of the Company	**(3,973)**	(114,402)	110,429	(97%)
Net loss per share – basic	***(0.02)***	*(0.52)*	*0.50*	*(96%)*
Net loss per share – diluted	***(0.02)***	*(0.52)*	*0.50*	*(96%)*
EBITDAC [(1)]	**23,134**	8,473	14,661	173%

Common Shares Outstanding	**2016**	2015	% Change
End of period	**262,300,999**	220,424,818	19%
Weighted average			
- basic	**261,840,909**	219,534,188	19%
- diluted	**261,840,909**	219,534,188	19%

	As at		
Financial Position ($000s)	**December 31, 2016**	December 31, 2015	% Change
Net working capital	**222,323**	230,222	(3%)
Total assets	**978,959**	931,537	5%
Long-term financial liabilities [(2)]	**306,267**	309,900	(1%)
Shareholders' equity [(3)]	**568,837**	531,648	7%

Notes:
[1] *Refer to the "Non-GAAP Measures" for further detail.*
[2] *Includes long-term portion of the deferred acquisition consideration, the Amended Senior Facility, the Senior Notes, vehicle and equipment financing, and finance leases.*
[3] *Represents shareholders' equity attributable to the shareholders of the Company.*

	Year Ended December 31,			
($000s, except per share amounts)	**2016**	2015	$ Change	% Change
Revenue	**567,726**	749,614	(181,888)	(24%)
Cost of sales	**455,945**	589,955	(134,010)	(23%)
Gross margin	**111,781**	159,659	(47,878)	(30%)
Gross margin percentage of revenue	**20%**	21%		
General and administrative expenses	**143,651**	151,623	(7,972)	(5%)
Finance costs	**27,008**	17,058	9,950	58%
Goodwill impairment	**-**	154,829	(154,829)	100%
Other loss (income)	**178**	(11,628)	11,806	(100%)
Loss income before taxes	**(59,056)**	(152,223)	93,167	(61%)
Current income tax expense (recovery)	**2,199**	(13,494)	15,693	(116%)
Deferred income tax expense (recovery)	**3,295**	(46,453)	49,748	(107%)
Net loss	**(64,550)**	(92,276)	27,726	(30%)
Net loss per share – basic	***(0.27)***	*(0.42)*	*0.15*	*(36%)*
Net loss per share – diluted	***(0.27)***	*(0.42)*	*0.15*	*(36%)*
EBITDAC [1]	**45,626**	93,700	(48,074)	(51%)

Common Shares Outstanding	**2016**	2015	% Change
End of period	**262,300,999**	220,424,818	19%
Weighted average			
- basic	**243,171,601**	217,846,960	12%
- diluted	**243,171,601**	217,846,960	12%

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

Revenue and Operating Activities

CES generated revenue of $187.7 million during Q4 2016, compared to $165.0 million for Q4 2015, an increase of $22.7 million or 14%. Year-to-date, revenue totaled $567.7 million, compared to $749.6 million for the year ended December 31, 2015, representing a decrease of $181.9 million or 24% on a year-over-year basis. Geographical revenue information relating to the Company's activities is as follows:

	Revenue		Revenue	
	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Canada	**66,804**	55,031	**195,910**	234,692
United States	**120,900**	109,927	**371,816**	514,922
	187,704	164,958	**567,726**	749,614

Revenue generated in the US for Q4 2016 was $120.9 million compared to $109.9 million for Q4 2015, an increase of $11.0 million or 10%. For the year ended December 31, 2016, US revenues were $371.8 million compared to $514.9 million for the same period in 2015, representing a decrease of $143.1 million, or 28%. US Treatment Points rose 61% in Q4 2016 in comparison to Q4 2015, and by 31% year-over-year, primarily as a result of the Catalyst Acquisition. However, US revenues for both the quarter and year-to-date were negatively affected by the following: a decline in frac related chemical sales as industry activity slowed; operators reducing their chemical usage on wells to try and optimize their chemical spend; customer well shut-ins; and the cumulative effects of the price discounting on all products as customers remain focused on managing near-term cash lifting costs. Revenues in the US were also negatively affected by reduced industry rig counts and the continued difficult pricing environment for the drilling fluids business. US average industry rig count declined 22% from Q4 2015 and 48% year-over-year, while US Operating Days were down 16% from Q4 2015 and 45% year-over-year. Despite the fall in industry activity and US Operating Days, the Company was able to gain market share in 2016 as CES achieved US Market Share of 11% for both the three and twelve month periods ending December 31, 2016, up from 10% in the comparable 2015 periods.

Revenue generated in Canada for Q4 2016, was $66.8 million compared to $55.0 million for Q4 2015, an increase of $11.8 million or 21%. For the year ended December 31, 2016, revenue in Canada was $195.9 million compared to $234.7 million in the same period in 2015, representing a decrease of $38.8 million or 17%. Throughout the quarter and year-to-date, PureChem continued to gain market share in Canada in production chemicals as Canadian Treatment Points have increased from the comparative periods, however these gains in market share have been offset by price discounting and customers optimizing their chemical spend. During Q4 2016, the drilling fluids business increased its operating days by 30% over the comparable period Q4 2015 however the growth was tempered by continued pricing pressure from customers. Year-to-date, operating days decreased 28% as a result of the year-over-year decline in drilling activity in Canada and revenue was further negatively affected by continued pricing pressure from customers

Industry rig activity levels at the drill-bit in Canada increased 3% from Q4 2015 but declined 35% year-over-year, as customers curtailed spending in order to preserve capital, resulting in a protracted spring break-up that outlasted the typical weather constraints. Despite the fall in drilling activity for the balance of 2016, the Company achieved Canadian Market Share of 38% and 36% for the three and twelve months ended December 31, 2016, respectively, as compared with 34% the three and twelve months ended December 31, 2015. CES expects to maintain its leading market share but future Canadian Market Share will continue to fluctuate with the rapidly changing rig count environment that is being driven by volatility in our customers' risk appetite and spending levels.

Included in revenue generated in Canada for the three and twelve months ended December 31, 2016, is $2.9 million and $7.1 million, respectively (2015 – $1.2 million and $6.9 million, respectively), of revenue generated by Clear, the Company's Environmental Services segment. Clear's business is levered to drilling activity and has been negatively impacted in the challenging oilfield market as operators cut back on all non-core spending and, similar to all service lines, pricing pressure and discounting of services only intensified as 2016 unfolded. Offsetting this was the addition of new technology and service offerings, at lower than normal margins for the business, resulting in increased revenue from the comparable periods. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

A summary of rig counts and Operating Days for the three and twelve months ended December 31, 2016, is as follows:

	Three Months Ended December 31,			Year Ended December 31,		
	2016	2015	% Change	**2016**	2015	% Change
Canadian industry rig count [(1)]	**172**	168	3%	**120**	184	(35%)
US industry rig count [(2)]	**565**	724	(22%)	**489**	941	(48%)

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

	Three Months Ended December 31,			Year Ended December 31,		
	2016	2015	% Change	**2016**	2015	% Change
Canada	**6,295**	4,843	30%	**16,130**	22,333	(28%)
US	**5,687**	6,805	(16%)	**18,732**	34,366	(45%)
Total Operating Days [(1)]	**11,982**	11,648	3%	**34,862**	56,699	(39%)

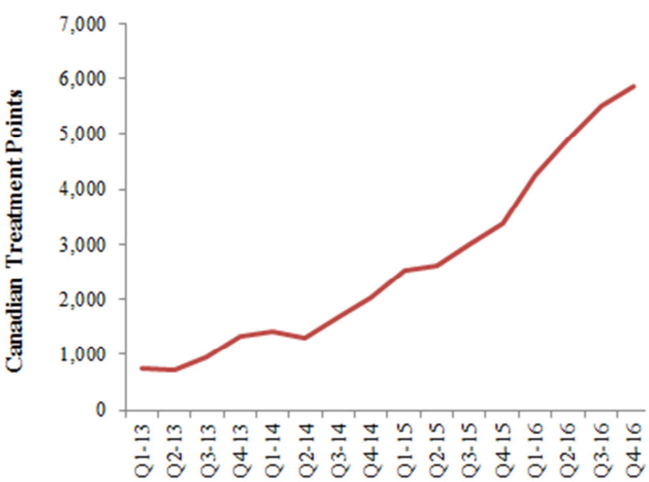
Notes:
[1] *Refer to "Operational Definitions" for further detail.*

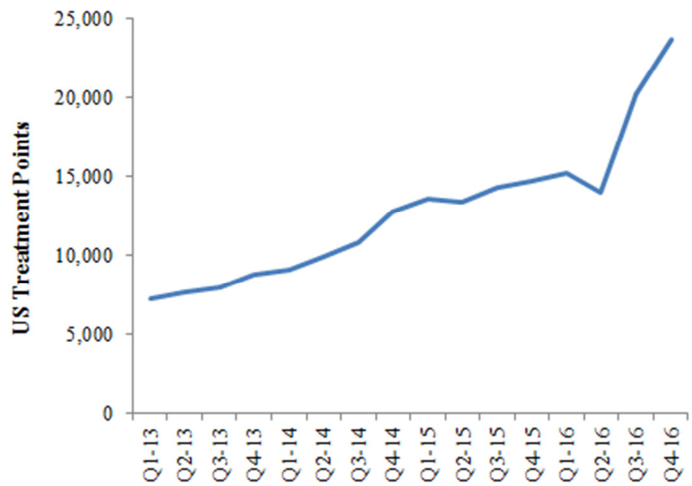
The following table summarizes estimated Treatment Points during the three and twelve months ended December 31, 2016 as compared to the same period in 2015:

	Three Months Ended December 31,			Year Ended December 31,		
	2016	2015	% Change	**2016**	2015	% Change
Canada	**5,856**	3,385	73%	**5,124**	2,875	78%
US	**23,641**	14,716	61%	**18,257**	13,959	31%
Total Treatment Points [1]	**29,497**	18,100	63%	**23,381**	16,834	39%

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

As evidenced by the graphs below, US Treatment Points have continued to trend upwards since the JACAM Acquisition in March of 2013 and have increased considerably subsequent to the August 1, 2016, Catalyst Acquisition. Canadian Treatment Points have continued to trend upwards as the Company continues to gain market share.





For the three and twelve months ended December 31, 2016, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2016	2015	**2016**	2015
Top five customers as a % of total revenue	**26%**	23%	**22%**	28%
Top customer as a % of total revenue	**12%**	9%	**10%**	14%

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

In Q4 2016, CES recorded gross margin of $40.0 million or 21% of revenue, compared to gross margin of $24.9 million or 15% of revenue generated in the same period last year. The improvement in Gross Margin as a percentage of revenue in Q4 2016 is a result of cost reduction initiatives taking effect, combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. Also favourably impacting Gross Margin year-over-year are lower one-time inventory write-downs as CES recorded $1.4 million of inventory write-downs in Q4 2016, versus $5.6 million in Q4 2015. Year-to-date, CES recorded gross margin of $111.8 million or 20% of revenue, compared to $159.7 million or 21% of revenue for the same period in 2015. The decline in gross margin is largely as a result of the margin compression experienced in both Canada and the US, fixed costs making up a higher proportion of the costs, and overall higher depreciation expense, partially offset by lower year-over-year inventory write-downs. The year-over-year increase in depreciation expense is primarily attributable to the Company's growing asset base. Depreciation expense recorded in the US was also negatively impacted on translation by weakness in CAD throughout 2016 as compared to 2015.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Gross margin	**39,983**	24,906	**111,781**	159,659
as a percentage of revenue	**21%**	15%	**20%**	21%
Add back (deduct):				
Depreciation included in cost of sales	**9,495**	8,577	**35,779**	31,830
(Gain) loss on disposal of assets included in cost of sales	**(358)**	289	**(1,570)**	151
Cash Gross Margin (1)	**49,120**	33,772	**145,990**	191,640
as a percentage of revenue	**26%**	20%	**26%**	26%

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

In Q4 2016 CES recorded Cash Gross Margin of $49.1 million or 26% of revenue, compared to Cash Gross Margin of $33.8 million or 20% of revenue generated in the same period last year. The improvement in Cash Gross Margin as a percentage of revenue in Q4 2016 is a result of the positive effects of cost reduction initiatives taken earlier in 2016, combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. CES has seen Cash Gross Margin as a percentage of revenue improve in the second half of 2016, however Q4 2016 Cash Gross Margin as a percentage of revenue was slightly behind Q3 2016 as a result of one-time negative inventory adjustments at year-end, higher costs of manufacturing winterized products in the production and specialty chemicals businesses, and the addition of some new but lower margin work related to water handling at Clear.

For the year ended December 31, 2016, CES recorded Cash Gross Margin of $146.0 million or 26% of revenue, compared to Cash Gross Margin of $191.6 million or 26% of revenue in 2015. Cash Gross Margin was consistent year-over-year on a percentage basis due to significant declines in activity levels, restructuring costs incurred in the drilling fluids business, pricing pressures impacting all business units that were offset by a lower fixed cost base in the drilling fluids business during the second half of 2016, and lower year-over-year inventory write-downs recorded to cost of sales in 2016 when compared to 2015. As a result of the cumulative effects of the protracted downturn and the industry recovery in the second half of FY 2016, on a comparative basis the first half of FY 2016 was worse than the first half of FY 2015. The reverse was true for the second half of FY 2016, which achieved an improved Cash Gross Margin percentage when compared to the second half of FY 2015. In addition, the Canadian business' Cash Gross Margin was negatively impacted by cost inflation of all USD inputs as CAD has weakened in FY 2016 when compared to the prior year. In the current commodity price environment, these higher costs could not be passed on to customers.

General and Administrative Expenses ("G&A")

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
General and administrative expenses	**37,804**	41,055	**143,651**	151,623
as a percentage of revenue	**20%**	25%	**25%**	20%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	**5,531**	6,996	**17,696**	25,979
Depreciation & amortization	**6,551**	6,177	**25,429**	23,164
Cash General and Administrative Costs (1)	**25,722**	27,882	**100,526**	102,480
as a percentage of revenue	**14%**	17%	**18%**	14%

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

In Q4 2016 CES recorded Cash General and Administrative Costs of $25.7 million or 14% of revenue, compared to Cash General and Administrative Costs of $27.9 million or 17% of revenue generated in the same period last year. Cash General and Administrative Costs as a percentage of revenue has decreased due to an increase in revenues, as highlighted above, resulting in these fixed costs of managing the business being distributed over more revenue. Cash General and Administrative Costs were impacted by the following one-time items in Q4 2016: a $1.0 million payment the Company received on a long-outstanding receivable previously deemed uncollectable, offset by $0.1 million in additional bad debt allowances, and $0.2 million in additional restructuring costs.

Year-to-date, CES recorded Cash General and Administrative Costs of $100.5 million or 18% of revenue, compared to $102.5 million or 14% of revenue in the same period in 2015. Cash General and Administrative Costs as a percentage of revenue for the year-to-date 2016 has increased primarily as a result of the decline in revenues resulting in the fixed costs of managing the business being distributed over less revenue. In 2016, the Company took actions to rationalize Cash General and Administrative Costs. These cost reduction measures included reduced corporate and administrative headcounts, reduced compensation levels, and reductions in discretionary spending. These efforts have been focused in particular on the drilling activity dependent divisions and have been offset by increased sales and administration costs related to the growing production and specialty chemical businesses in both Canada and the US. Included in 2016 are costs for the Catalyst and Sialco divisions that are not in the comparative period results. Finally, for the year ended December 31, 2016, US source Cash General and Administrative Costs were negatively impacted on translation by weakness in CAD versus USD over the comparable period in 2015.

Depreciation and Amortization

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	**9,495**	8,577	**35,779**	31,830
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	**5,315**	4,983	**20,459**	19,438
Depreciation expense on property and equipment	**1,236**	1,194	**4,970**	3,726
	6,551	6,177	**25,429**	23,164
Total depreciation and amortization expense	**16,046**	14,754	**61,208**	54,994

Depreciation of property and equipment and amortization of intangible assets totalled $16.0 million for Q4 2016, as compared to $14.8 million for the same period in 2015. For the year-to-date period ending December 31, 2016, depreciation of property and equipment and amortization of intangible assets totalled $61.2 million, as compared to $55.0 million for the same period in 2015. The year-over-year increase in depreciation and amortization expense is primarily attributable to the Company's continued capital investment in the expansion of its operations in Canada and the US as well as the amortization of the Company's property and equipment and intangible assets associated with the acquisitions of Sialco and Catalyst, for which there was none in the comparable period in 2015. Depreciation recorded in the US was also negatively impacted on translation by weakness in CAD versus USD over the comparable period in 2015.

Finance Costs
For the three and twelve months ended December 31, 2016 and 2015, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Realized foreign exchange loss (gain)	**87**	(1,282)	**1,746**	(2,043)
Unrealized foreign exchange (gain) loss	**(53)**	(210)	**26**	(205)
Realized financial derivative loss (gain)	**177**	(1,061)	**(1,908)**	(2,497)
Unrealized financial derivative (gain) loss	**(699)**	(1,081)	**2,928**	(2,914)
Amortization of debt issue costs and premium	**321**	317	**1,271**	1,311
Interest on debt, net of interest income	**5,947**	5,754	**22,945**	23,406
Finance costs	**5,780**	2,437	**27,008**	17,058

Interest expense
During the three and twelve months ended December 31, 2016, interest expense included in finance costs consists of interest expense on capitalized lease facilities, the Amended Senior Facility, and the Senior Notes. Amortization of capitalized deferred financing costs on both the Senior Notes and the Amended Senior Facility are included in interest expense under IFRS, and in the table below is deducted from total interest expense in order to calculate Cash Interest Expense.

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2016**	2015	**2016**	2015
Total interest expense, net of interest income	**6,268**	6,071	**24,216**	24,717
Deduct non-cash interest expense:				
Amortization of debt issue costs and premium	**321**	317	**1,271**	1,311
Cash Interest Expense (1)	**5,947**	5,754	**22,945**	23,406

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

Year-over-year, interest expense has decreased largely as a result of the decreased net draw on the Amended Senior Facility throughout 2016 as compared to 2015, thereby reducing interest incurred on outstanding borrowings. Total interest expense relating to the Company's Senior Notes during the three and twelve months ended December 31, 2016 is $5.4 million and $21.4 million, respectively, consistent with $5.4 million and $21.4 million in the respective 2015 periods.

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2016 include a net foreign exchange loss of $0.03 million and $1.8 million, respectively (2015 – a gain of $1.5 million and $2.2 million, respectively), primarily related to foreign exchange losses on the Company's USD denominated receivables and cash balances held in Canada. The net foreign exchange loss was driven by a strengthening CAD, a trend that began in the latter part of the first quarter and continued into the third quarter of 2016.

Derivative gains and losses
Finance costs for Q4 2016 include a net derivative gain of $0.5 million relating to the Company's foreign currency derivative contracts as compared with a net derivative gain of $2.1 million in Q4 2015. Year-to-date, finance costs include a net derivative loss of $1.0 million as compared with a net derivative gain of $5.4 million in the same period in 2015. As of December 31, 2016, the Company had a financial derivative asset of net $0.02 million and a financial derivative liability of net $0.6 million relating

to its outstanding derivative contracts (December 31, 2015 – net asset of $2.4 million and liability of $0.09 million, respectively).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies. At December 31, 2016, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD$000s	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3396
February 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3393
March 2017	$2,000	Deliverable Forward	Physical Purchase	$1.3391
Total	$6,000			$1.3393

Period	Notional Call USD$000s	Notional Put USD$000s	Settlement	Average USDCAD Exchange Rate
January 2017	$2,000	$4,000	Physical Purchase	$1.3921
February 2017	$2,000	$4,000	Physical Purchase	$1.4250
March 2017	$2,000	$4,000	Physical Purchase	$1.3471
Total	$6,000	$12,000		$1.3881

In addition to the contracts noted above, the Company has also entered into zero-cost collars with the option to sell US$0.6 million in January 2017, with a USDCAD strike price of $1.28 and a participation rate of $1.50.

Current and Deferred Income Taxes
Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three and twelve months ended December 31, 2016 and 2015, income tax expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2016**	2015	**2016**	2015
Current income tax expense (recovery)	**229**	(5,351)	**2,199**	(13,494)
Deferred income tax expense (recovery)	**140**	(53,422)	**3,295**	(46,453)
Total income tax expense (recovery)	**369**	(58,773)	**5,494**	(59,947)

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

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

Net Working Capital
At December 31, 2016, the Company had a net draw of $nil on its Amended Senior Facility and had cash on hand of $13.4 million. CES continued to maintain a strong statement of financial position or "balance sheet" as at December 31, 2016, with positive net working capital of $222.3 million (December 31, 2015 - $230.2 million). The decline in working capital from December 31, 2015 is primarily due to a $21.5 million increase in accounts payable, a $2.4 million reduction in inventory, a $2.1 million reduction in prepaid expenses, and a $16.4 million reduction in incomes taxes receivable. This decline in working capital was offset by a $16.1 million increase in receivables, a $13.4 million increase in cash as a result of the completion of the Offering, a $5.3 million decline in deferred acquisition consideration payable, and a $3.3 million decrease in dividends payable. CES placed trade credit insurance over most of its 2016 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature. In light of recent bankruptcies in the US, CES has filed and collected on all of its claims made on this insurance policy in calendar 2016. The Company did not renew this trade credit insurance policy for in 2017 as it was determined to be more economical to self-insure this risk given the significant increases to trade credit insurance premiums versus the risk profiles of our customers.

Total Long-Term Assets
Year-over-year, total long-term assets of CES increased by $40.5 million to $659.5 million at December 31, 2016 from $618.9 million at December 31, 2015. The increase is attributable to the long-term assets acquired through the Catalyst Acquisition, which includes $17.9 million of property and equipment, $13.5 million in intangible assets, and $46.6 million of goodwill based on the Company's purchase price allocation. This increase in long-term assets is partially offset with a decline in USD denominated long-term assets on translation as a result of a strengthening CAD that has occurred since December 31, 2015.

Long-Term Financial Liabilities
CES had long-term debt totalling $298.8 million at December 31, 2016, compared to $299.6 million at December 31, 2015, a decrease of $0.8 million. The year-over-year decrease in long-term debt is primarily as a result of the Company repaying all of its borrowings on the Amended Senior Facility during the period. Additional discussion relating to the Company's Amended Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.

At December 31, 2016, long-term debt liabilities were comprised of the following balances:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Amended Senior Facility	**-**	966
Senior Notes	**300,000**	300,000
	300,000	300,966
Less net unamortized debt issue costs	**(3,683)**	(4,588)
Add net unamortized debt premium	**2,453**	3,199
Long-term debt	**298,770**	299,577

At December 31, 2016, the Company had finance lease liabilities of $14.7 million, net of the current portion of $7.2 million, representing a total increase of $0.7 million from December 31, 2015. Future minimum lease payments outstanding under the Company's finance lease obligations are as follows:

$000s	
Less than 1 year	**7,800**
1-5 years	**7,847**
5+ years	**-**
Total lease payments	**15,647**
Amount representing implicit interest	**(926)**
Finance lease obligations	**14,721**
Less: current portion of finance lease obligations	**(7,224)**
Long-term finance lease obligations	**7,497**

During the three and twelve months ended December 31, 2016, the Company made long-term scheduled debt and lease repayments totaling $2.0 million and $8.7 million, respectively, on its finance leases, vehicle debt, and credit facilities.

Shareholders' Equity

Shareholders' equity increased by $37.2 million from $531.6 million at December 31, 2015 to $568.8 million at December 31, 2016. The increase in shareholders' equity is primarily attributable to the issuance of $89.0 million in shares issued pursuant to the Offering, net of share issuance costs and taxes, $25.2 million relating to shares issued as consideration in conjunction with the Catalyst Acquisition, $17.7 million in contributed surplus related to stock-based compensation expense, and $23.5 million relating to the issuance of equity under the Company's stock-based compensation plans. The increase was offset by a $64.6 million net loss, $10.7 million of dividends declared by the Company during the period, $21.0 million reclassified from contributed surplus for stock-based compensation plans, and a $21.9 million loss in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000s, except per share amounts)	**Dec 31, 2016**	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenue	**187,704**	145,140	97,733	137,149
Gross margin	**39,983**	32,134	15,754	23,910
Net loss	**(3,973)**	(11,387)	(25,597)	(23,593)
per share– basic	***(0.02)***	*(0.04)*	*(0.11)*	*(0.11)*
per share– diluted	***(0.02)***	*(0.04)*	*(0.11)*	*(0.11)*
EBITDAC [2]	**23,134**	16,580	(689)	6,601
per share– basic	***0.09***	*0.06*	*0.00*	*0.03*
per share– diluted	***0.09***	*0.06*	*0.00*	*0.03*
Funds Flow From Operations [2]	**16,973**	11,699	(10,488)	2,338
per share– basic	***0.06***	*0.05*	*(0.05)*	*0.01*
per share– diluted	***0.06***	*0.05*	*(0.05)*	*0.01*
Dividends declared	**1,965**	1,943	1,749	5,079
per share	***0.0075***	*0.0075*	*0.0075*	*0.0230*
Shares Outstanding				
End of period	**262,300,999**	261,665,788	253,867,856	222,369,084
Weighted average – basic	**261,840,909**	258,964,524	230,573,931	220,928,336
Weighted average – diluted	**261,840,909**	258,964,524	230,573,931	220,928,336

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

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

Seasonality of Operations

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

SELECTED ANNUAL INFORMATION

	Year Ended December 31,				
($000's, except per share amounts)	**2016**	% Change	2015	% Change	2014
Revenue	**567,726**	(24%)	749,614	(23%)	972,705
Gross margin	**111,781**	(30%)	159,659	(40%)	265,491
Gross margin percentage of revenue	**20%**		21%		27%
(Loss) income before taxes	**(59,056)**	(61%)	(152,223)	(264%)	92,579
per share – basic [2]	***(0.24)***	*(66%)*	*(0.70)*	*(259%)*	*0.44*
per share - diluted [2]	***(0.24)***	*(66%)*	*(0.70)*	*(263%)*	*0.43*
Net (loss) income	**(64,550)**	(30%)	(92,276)	(236%)	67,704
per share – basic [2]	***(0.27)***	*(36%)*	*(0.42)*	*(227%)*	*0.33*
per share - diluted [2]	***(0.27)***	*(36%)*	*(0.42)*	*(235%)*	*0.31*
EBITDAC [1]	**45,626**	(51%)	93,700	(47%)	177,172
per share – basic [2]	***0.19***	*(56%)*	*0.43*	*(49%)*	*0.85*
per share - diluted [2]	***0.19***	*(56%)*	*0.43*	*(48%)*	*0.82*
Funds Flow From Operations [1]	**20,522**	(76%)	83,848	(42%)	144,962
per share – basic [2]	***0.08***	*(79%)*	*0.38*	*(46%)*	*0.70*
per share - diluted [2]	***0.08***	*(79%)*	*0.38*	*(43%)*	*0.67*
Dividends declared	**10,736**	(85%)	69,849	10%	63,224
per share [2]	***0.0455***	(86%)	*0.3205*	*6%*	*0.3025*

	As At December 31,				
Financial Position ($000's)	**2016**	% Change	2015	% Change	2014
Net working capital	**222,323**	(3%)	230,222	(25%)	307,081
Total assets	**978,959**	5%	931,537	(14%)	1,088,080
Long-term financial liabilities [3]	**306,267**	(1%)	309,900	(18%)	378,662
Shareholders' equity	**568,837**	7%	531,648	(2%)	540,037

Notes:

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Amended Senior Facility

On March 29, 2016, the Company completed an amendment to its existing Senior Facility ("Amended 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 include a voluntary reduction in the borrowing amount from $200 million to a maximum of $150 million and certain changes to the Company's debt covenants. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 1.50% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 2.50%. The Amended Senior Facility has a standby fee ranging from 0.35% to 0.56%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

At December 31, 2016, the Company had a net draw of $nil on its Amended Senior Facility and capitalized transaction costs pertaining to the Amended Senior Facility of $0.6 million (December 31, 2015 – net draw of $0.4 million, net of capitalized transaction costs of $0.5 million). The maximum available draw on the Amended Senior Facility at December 31, 2016, was $121.4 million (December 31, 2015 – $200.0 million), calculated as trailing EBITDA for the four quarters ended December 31, 2016, as described below, multiplied by the required Senior Funded Debt to EBITDA ratio as described below. As at the date of this MD&A, the Company had a net draw of approximately $45.0 million on its Amended Senior Facility. As at December 31, 2016, the Company had positive net working capital of $222.3 million as compared with $230.2 million at December 31, 2015.

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

- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.25 to 1.00 calculated on a rolling four-quarter basis; and
- The quarterly ratio of EBITDA to interest expense, on a rolling four-quarter basis, must be more than:
    - 1.50:1.00 for the period ending December 31, 2016;
    - 1.75:1.00 for the period ending March 31, 2017; and
    - 2.00:1.00 thereafter.

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

- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. An additional amount of $3.0 million was permitted to be added to EBITDA on a one time basis for the quarter ended December 31, 2015.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.
- Senior Funded Debt is defined as Total Net Funded Debt minus the principal amount owing on the Company's Senior Notes.

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

As at December 31, 2016, and as of the date of this MD&A, CES was in compliance with the terms and covenants of its lending agreements. The Company's debt covenants are calculated as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Senior Funded Debt to trailing EBITDA Ratio (Must be < 2.25:1.00)		
Senior Funded Debt	**4,138**	14,941
EBITDA for the four quarters ended	**53,969**	103,035
Ratio	**0.077**	0.145
EBITDA to Interest Expense (Must be > 1.50:1.00)		
EBITDA for the four quarters ended	**53,969**	103,035
Interest Expense for the four quarters ended	**23,189**	23,436
Ratio	**2.327**	4.396

Senior Notes

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

Senior Notes semi-annually on April 17th and October 17th. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after April 17, 2017. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt. As at the date of this MD&A the Senior Notes were trading over par.

Other Indebtedness
In addition to the above, CES has non-bank vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.17%, and have termination dates ranging from January 2017 through April 2021. At December 31, 2016, outstanding vehicle and equipment finance lease obligations totalled $14.7 million as compared to $13.9 million at December 31, 2015.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2016:

	Payments Due By Period (1)					
$000s	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	81,701	-	-	-	-	**81,701**
Dividends payable (2)	656	-	-	-	-	**656**
Income taxes payable	-	2,372	-	-	-	**2,372**
Deferred acquisition consideration	-	4,615	-	-	-	**4,615**
Senior Notes (4)	-	-	-	300,000	-	**300,000**
Interest on Senior Notes	-	22,125	22,125	33,188	-	**77,438**
Finance lease obligations at floating interest rates (3)	1,244	5,980	4,710	2,787	-	**14,721**
Office operating leases	1,171	5,170	5,214	6,689	3,069	**21,313**
	84,772	40,262	32,049	342,664	3,069	**502,816**

Notes:
1 *Payments denominated in foreign currencies have been translated using the appropriate December 31, 2016 exchange rate*
2 *Dividends declared as of December 31, 2016*
3 *Finance lease obligations reflect principal payments and excludes any associated interest portion*
4 *The Senior Notes are due on April 17, 2020*

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

Cash Flows from Operating Activities
For the three months ended December 31, 2016, cash flow from operating activities was an inflow of $2.4 million compared to an inflow of $25.2 million during the three months ended December 31, 2015, with the decrease being primarily as a result of the change in non-cash working capital and the decreased net loss quarter over quarter.

Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended December 31, 2016, Funds Flow From Operations was an inflow of $17.0 million, compared to $7.8 million for the three months ended December 31, 2015. The increase in Funds Flow from Operations from Q4 2015 to Q4 2016 is largely as a result of the increase in activity in the quarter and resulting impact on net operating cash flows during the fourth quarter.

$000's	Three Months Ended December 31, **2016**	2015	Year Ended December 31, **2016**	2015
Cash provided by operating activities	**2,414**	25,217	**57,461**	208,721
Adjust for:				
Change in non-cash operating working capital	**14,559**	(17,373)	**(36,939)**	(124,873)
Funds Flow From Operations [1]	**16,973**	7,844	**20,522**	83,848

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

Cash Flows from Investing Activities
For the three months ended December 31, 2016, net cash outflows from investing activities totalled $10.3 million, a decrease from the $27.9 million outflow from investing activities during the three months ended December 31, 2015, primarily as a result the decline in cash outflows for business combinations in the current quarter as compared to Q4 2015, and a decline in investment in property and equipment in Q4 2016 compared to Q4 2015 by $0.6 million as a result of reduced expansion capital deployed in the quarter.

For the three months ended December 31, 2016, $8.4 million was spent on property and equipment (net of $3.7 million in asset financing and vehicle leases). During the quarter, CES had $2.0 million of additions related to Maintenance Capital and $10.2 million of additions related to Expansion Capital including asset and vehicle financing. Notable expansion additions during the quarter ended December 31, 2016 include: $2.6 million for warehouse and facilities, $2.4 million for machinery and field equipment, $2.3 million in vehicles, $1.5 million in trucks and trailers, $1.0 million for processing equipment, $0.3 million for tanks, and $0.1 million for other expansion additions.

Expansion Capital expenditures in Q4 2016 were primarily related to the continued expansion of the JACAM, Catalyst, and PureChem facilities. Details of investment made in property and equipment are as follows:

$000's	Three Months Ended December 31, **2016**	2015	Year Ended December 31, **2016**	2015
Expansion Capital [1]	**10,214**	10,648	**36,694**	49,227
Maintenance Capital [1]	**1,998**	576	**5,108**	2,853
Total investment in property and equipment	**12,212**	11,224	**41,802**	52,080
Asset financing and leases	**(3,650)**	(1,253)	**(7,581)**	(5,753)
Capital expenditures	**8,562**	9,971	**34,221**	46,327
Change in non-cash investing working capital	**(176)**	(987)	**623**	(314)
Cash used for investment in property and equipment	**8,386**	8,984	**34,844**	46,013

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

Historically, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2017, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately $50.0 million, of which an estimated $14.0 million will be maintenance capital additions, and an estimated $36.0 million will be for expansion capital additions.

Cash Flows from Financing Activities
For the three month period ended December 31, 2016, cash flows from financing activities totalled a cash outflow of $2.0 million compared to a cash outflow of $16.1 million during the comparative prior year period. This year-over-year decline in

cash outflows from financing activities is primarily due to the reduced level of dividends paid in Q4 2016 when compared to Q4 2015.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2016**	2015	**2016**	2015
Cash provided by operating activities	**2,414**	25,217	**57,461**	208,721
Adjust for:				
Change in non-cash operating working capital	**14,559**	(17,373)	**(36,939)**	(124,873)
Funds Flow From Operations [(1)]	**16,973**	7,844	**20,522**	83,848
less: Maintenance Capital [(2)]	**(1,998)**	(576)	**(5,108)**	(2,853)
Distributable Earnings [(1)]	**14,975**	7,268	**15,414**	80,995
Dividends declared	**1,965**	16,027	**10,736**	69,849
Payout Ratio [(1)]	**13%**	221%	**70%**	86%

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

Distributable Earnings were $15.0 million for the three months ended December 31, 2016, compared with $7.3 million for the same period in 2015. During the three months ended December 31, 2016, CES declared monthly dividends totalling $0.0075 per share for the quarter. During the fourth quarter of 2016, the Payout Ratio was 13% as compared to 221% for the fourth quarter of 2015.

Dividend Policy
In response to the deteriorating industry conditions and in order to preserve balance sheet strength CES reduced its monthly dividend to $0.0025 per share effective February 2016. On an annualized basis, the revised dividend is $0.03 per common share. CES will retain the shareholders' cash to preserve balance sheet strength and provide liquidity to fund potential growth initiatives.

The Company declared dividends to holders of common shares for the year ended December 31, 2016, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 29	Feb 12	$0.0180	**3,971**
February	Feb 29	Mar 15	$0.0025	**552**
March	Mar 31	Apr 15	$0.0025	**556**
April	Apr 29	May 13	$0.0025	**556**
May	May 31	Jun 15	$0.0025	**558**
June	Jun 30	Jul 15	$0.0025	**635**
July	Jul 29	Aug 15	$0.0025	**635**
August	Aug 31	Sep 15	$0.0025	**654**
September	Sep 30	Oct 14	$0.0025	**654**
October	Oct 31	Nov 15	$0.0025	**654**
November	Nov 30	Dec 15	$0.0025	**655**
December	Dec 30	Jan 13	$0.0025	**656**
Total dividends declared during the period			$0.0455	**10,736**

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

Management and the Board of Directors review the appropriateness of dividends on a monthly basis taking into account applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, and management's forecast of Distributable Earnings and the Payout Ratio. Although, at this time, despite the challenging oil price environment which is negatively impacting activity levels and revenue in the near-term, CES intends to continue to pay cash dividends to shareholders, but these dividends are not guaranteed. In addition, future expansion, investments, and acquisitions may be funded internally by withholding a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES withholds cash flow to finance these activities, the amount of cash dividends to shareholders may be reduced. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a proportion of cash flow from operations being paid out as a dividend as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated.

Subsequent to December 31, 2016, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on February 15, 2017 and March 15, 2017, for shareholders of record on January 31, 2017 and February 28, 2017, respectively. With these dividend reductions, CES is responding to the low oil price environment and preserving the strength of the Company's balance sheet. CES will continue to be protective of its balance sheet and prudent with its cash dividend going forward, particularly if the current low oil price environment continues.

Shareholders' Equity
As of December 31, 2016, CES had a total of 262,300,999 common shares outstanding. As of the date of this MD&A, CES had a total of 264,201,073 common shares outstanding.

Stock-based Compensation,
As at December 31, 2016, a total of 26,230,100 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 7,326,115 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At December 31, 2016, a total of 14,045,400 Share Rights were outstanding (December 31, 2015 – 11,248,244) at a weighted average exercise price of $6.26 (assuming all SRIP's are exercised at their respective original exercise price) of which 4,996,066 were exercisable. As of the date of this MD&A, an aggregate of 13,945,400 Share Rights remaining outstanding, of which 4,994,066 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At December 31, 2016, a total of 4,858,585 Restricted Share Units were outstanding (December 31, 2015 – 4,892,227) at a weighted average issuance price of $6.19, none of which were vested. As of the date of this MD&A, an aggregate of 5,417,453 Restricted Share Units remain outstanding, none of which have vested.

Commitments
At December 31, 2016, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000s	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Office and facility rent	6,341	5,214	3,561	2,030	1,098	**18,244**

Payments denominated in foreign currencies have been translated using the appropriate December 31, 2016 exchange rate

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' consolidated financial statements relate to, but are not limited to, the following:

Significant Judgments

Determining CGUs

For the purpose of assessing impairment of non-financial assets, the Corporation must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Corporation is the Canadian Operations and the US Operations.

Significant Estimates

Accounts receivable

The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts, taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Inventories

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

Property and equipment

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

Recoverability of asset carrying values

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

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

Purchase price allocations
The assets acquired and liabilities assumed are generally recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets, including goodwill, property and equipment, other assets, and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates, and market conditions at the date of acquisition.

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

CORPORATE GOVERNANCE

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

At the end of the period covered by this MD&A, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' disclosure controls and procedures, as detailed by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in CES' annual filings and interim filings and other reports filed or submitted in accordance with Canadian securities laws is recorded, processed, summarized, and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of CES, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")
Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer and based on criteria set out in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, conducted an evaluation of the design and effectiveness of CES' ICFR as at December 31, 2016. Based on their assessment, Management determined that ICFR were effective as at December 31, 2016.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting, other than the Catalyst Acquisition on August 1, 2016. In accordance with the provisions of NI 52-109, Management has limited the scope of their design of the Company's DC&P and ICFR to exclude controls, policies, and procedures of Catalyst. Management is currently reviewing the Catalyst ICFR systems and processes and has not identified any significant design or operating deficiencies to date.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2016 Annual Report, CES' Annual Information Form dated March 9, 2017 in respect of the year ended December 31, 2016, and CES' Information Circular in respect to the June 16, 2016 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS

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

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

Despite the improvement in oil prices, in general oil, natural gas liquids and natural gas commodity prices in North America continue to see weakness, and in general all trade at discounts to comparable world-wide bench-marks. This increases risk to CES' customers and reduces their available cash flow. Crude prices were depressed in 2016, with West Texas Intermediate ("WTI") reaching a low in February 2016 of USD$26.05/bbl, a price that was last seen in May 2003. Oil prices improved in the last half of 2016 but prices are likely to continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward curves for 2017 and 2018 are trading around USD$55/bbl which is far below the USD$100/bbl pricing enjoyed by operators in July 2014. In addition, many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets given the status of several proposed pipeline projects, the potential for a change to US trade policies, tax reform including a potential Border Adjustment Tax ("BAT"), and potential changes to the crude by rail industry in the face of several derailments.

Natural gas prices have remained relatively weak since their peak in 2008. With gas in storage above five year averages, North America has most quoted spot prices trading less than USD$3.00 per MMBtu, and the futures curve for Nymex Henry Hub is trading around USD$3.00 per MMBtu for 2017 and 2018.

The volatility in the financial markets since 2008 has impacted the general availability of both credit and equity financing in the marketplace. World-wide political and economic risks seem to be intensifying and, although there is more optimism for stronger economic growth in the US, there are added risks and uncertainties around the impact of new policies proposed by the recently elected Trump administration, including, but not limited to, the renegotiation of international trade agreements; the potential changes to US trade policies; and tax reform including a potential BAT. Despite CES' successful issuance of equity through the Offering completed in June 2016, in general since the fall of 2014 there has been a retreat in the energy equity markets and in particular energy related debt markets as a result of low commodity prices. As such, it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit without significant costs. CES is also reliant on its Amended Senior Facility to fund working capital and other growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Amended Senior Facility is critical to the effective execution of CES' business plan.

To date, CES has not experienced any funding issues under any of its debt facilities. However, the continued deterioration of the commodity price environment and the corresponding impact on the demand for oilfield services has caused a number of oilfield service companies to seek covenant relief from their lenders. In Q1 2016, in order to address weaker upstream activity expected in 2016, CES successfully completed an amendment to its existing Senior Facility resulting in relief from certain covenants to provide the financial flexibility required to weather this period of low commodity prices. The Company's revised Senior Funded Debt to EBITDA and Interest Coverage ratios are sensitive to reduced EBITDAC resulting from the prolonged decline in oilfield services activity, and failing to comply with these covenants could lead to restrictions on the Company's ability to access the Amended Senior Facility in the future. At December 31, 2016, CES is in compliance with terms and covenants of all of its lending agreements.

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

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

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

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

Significant changes in the oil and gas industry including economic conditions, environmental regulations, government policy, and other factors may adversely affect CES' ability to realize the full value of its accounts receivable. In addition, a concentration of credit risk exists in trade accounts receivable since they are predominantly with companies operating in the WCSB, Texas and the Mid-continent regions, and Northeast regions of the US. CES continues to attempt to mitigate the credit risk associated with its customer receivables by performing credit checks as considered necessary, managing the amount and timing of exposure to individual customers, reviewing its credit procedures on a regular basis, reviewing and actively following up on older accounts, and insuring trade credit risks where deemed appropriate. CES does not anticipate any significant issues in the collection of its customer receivables at this time outside of those which have already been provided for. However, if the current low oil and natural gas price environment persists, and if access to capital markets remains weak for CES' customers, there would be a risk of increased bad debts. It is not possible at this time to predict the likelihood, or magnitude, of this risk. In light of current market conditions, CES placed trade credit insurance over most of its 2016 generated US receivables, subject to certain conditions and limitations customary for insurance of that nature. The Company did not renew this trade credit insurance policy for 2017 as it was determined to be more economical to self-insure this risk given the significant increases to trade credit insurance premiums.

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. In addition, the Alberta Government has recently implemented a carbon levy. Initial indications are that the carbon levy is an additional cost for oil and gas producers in the province. However, the exact effect of the carbon levy and its impact on CES' business is indeterminable at this time. The potential for future changes in these and other jurisdictions for additional royalties, levies and other taxes, and other climate change related taxes is an on-going risk for the oilfield services sector.

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

The Company and its various subsidiaries are subject to corporate income and other taxation in various federal, provincial and state jurisdictions in Canada, the US, and Luxembourg. For the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audits and reassessments by the various taxation authorities and where applicable, the Company adjusts previously recorded tax expense to reflect audit adjustments. We believe we have adequately provided for all income tax obligations. However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities, new tax legislation, or changes in administrative positions of tax authorities could result in an increase or decrease to the Company's provision for income taxes. Although not quantifiable at this time, these differences could potentially have a material impact on future net income and the Company's effective tax rate.

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

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

Reference should be made to CES' Annual Information Form dated March 9, 2017 for the year ended December 31, 2016, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

OUTLOOK

The past two years have been extremely challenging as CES has navigated through the protracted industry downturn. CES' 2016 results reflect successful execution in a very difficult environment. In response to the low commodity prices and falling rig counts in the first half of 2016, CES provided additional discounts to our customers and implemented further cost reduction initiatives. During the second half of 2016, a recovery in commodity prices resulted in a pick-up of industry activity and allowed

CES to sell increasing volumes of our products across our rationalized cost structure. As a result, CES posted positive Adjusted EBITDAC of $41.1 million in the last six months of the year without price increases. CES also gained market share in all of its segments by demonstrating to customers the benefits of CES' technologies, service, and attention to problem solving.
With the improvement in industry activity in the second half of 2016 and to date in 2017, CES is modestly optimistic with its outlook. If WTI can remain at or above the USD$50/bbl mark, most of our customers initiatives are economic and activity should continue to rise in 2017 or at minimum not retrench to first half 2016 levels.

CES believes that over time it can continue to grow its share of the oilfield consumable chemical market. The Catalyst Acquisition in 2016 was another significant step forward in this regard as CES sees the Permian Basin having the most near-term opportunities for growth. CES' strategy is to utilize its decentralized management model; its vertically integrated manufacturing model; its problem solving through science approach; its patented and proprietary technologies; and its superior execution to increase market share. The protracted downturn has made many middlemen, or competitors who are simply resellers of other company's products, redundant. By being basic in the manufacture of the consumable chemicals it sells, CES continues to be price competitive and a technology leader. Recent competitor consolidations and business failures will provide further opportunities for CES in this recovery period. CES believes that its unique value proposition makes it the premier independent provider of technically advanced consumable chemical solutions to the North American oilfield.

Emerging from the protracted downturn, CES' balance sheet is well positioned to capitalize on the improving oilfield activity. At December 31, 2016 CES had cash on the balance sheet, a net $nil draw on its Senior Facility and its $300 million of Senior Notes are not due until April 2020. With the pick-up in oilfield activity in Q1 2017, CES has begun to draw modestly on its Senior Facility and, as at the date of this MD&A, the Company had a net draw of approximately $45.0 million on its Amended Senior Facility. In 2017 it is expected EBITDAC will exceed cash interest costs, capital expenditures and dividends.

CES will continue to assess M&A opportunities that will improve CES' competitive position and enhance profitability. Any acquisitions must meet CES' stringent financial and operational metrics. In its core businesses, CES will focus on growing market share, controlling costs, developing or acquiring new technologies, and making strategic investments as required to position the business to capitalize on the industry rebound.

ADDITIONAL INFORMATION

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

Canadian Energy
SERVICES

Audited Consolidated Financial Statements

For the Years Ended December 31, 2016 and 2015

MANAGEMENT'S REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of four independent, non-management directors, is responsible to review these statements with management and the auditors and to report to the Board of Directors. The Board of Directors is responsible to review and approve the consolidated financial statements.

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 9, 2017

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 9, 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Energy Services & Technology Corp.:

We have audited the accompanying consolidated financial statements of Canadian Energy Services & Technology Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of (loss) and comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Energy Services & Technology Corp. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "Deloitte LLP"

Chartered Professional Accountants
March 9, 2017
Calgary, Canada

Canadian Energy Services & Technology Corp.

Consolidated Statements of Financial Position
(stated in thousands of Canadian dollars)

	As at	
	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	**13,390**	-
Accounts receivable	**174,082**	157,988
Financial derivative asset (note 20)	**20**	2,453
Income taxes receivable (note 14)	**1,605**	18,022
Inventory (note 5)	**119,636**	121,258
Prepaid expenses and deposits	**10,746**	12,882
	319,479	312,603
Property and equipment (note 6)	**276,523**	269,500
Intangible assets (note 7)	**90,734**	97,286
Deferred income tax asset (note 14)	**11,473**	15,069
Other assets (note 8)	**6,245**	5,338
Goodwill (note 7)	**274,505**	231,741
	978,959	931,537
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**81,701**	60,169
Financial derivative liability (note 20)	**588**	93
Dividends payable (note 18)	**656**	3,968
Income taxes payable (note 14)	**2,372**	802
Current portion of deferred acquisition consideration (note 4)	**4,615**	9,897
Current portion of finance lease obligations (note 10)	**7,224**	7,452
	97,156	82,381
Deferred acquisition consideration (note 4)	**-**	3,800
Long-term debt (note 9)	**298,770**	299,577
Finance lease obligations (note 10)	**7,497**	6,523
Deferred income tax liability (note 14)	**6,699**	7,608
	410,122	399,889
Commitments (note 19)		
Shareholders' equity		
Common shares (note 15)	**622,665**	484,932
Contributed surplus (note 17)	**26,116**	29,430
Deficit	**(243,280)**	(167,994)
Accumulated other comprehensive income	**163,336**	185,280
	568,837	531,648
	978,959	931,537

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer and Director

"Philip J. Scherman"
Philip J. Scherman
Director & Chairman, Audit Committee

The accompanying notes are an integral part of these consolidated financial statements.

Canadian Energy Services & Technology Corp.

Consolidated Statements of (Loss) and Comprehensive (Loss) Income
(stated in thousands of Canadian dollars, except per share amounts)

	Year Ended December 31,	
	2016	2015
Revenue	**567,726**	749,614
Cost of sales (note 11)	**455,945**	589,955
Gross margin	**111,781**	159,659
General and administrative expenses (note 12)	**143,651**	151,623
Operating (loss) profit	**(31,870)**	8,036
Finance costs (note 13)	**27,008**	17,058
Impairment of goodwill (note 7)	**-**	154,829
Other loss (income)	**178**	(11,628)
Loss before taxes	**(59,056)**	(152,223)
Current income tax expense (recovery) (note 14)	**2,199**	(13,494)
Deferred income tax expense (recovery) (note 14)	**3,295**	(46,453)
Net loss	**(64,550)**	(92,276)
Other comprehensive (loss) gain (items that may be subsequently reclassed to profit and loss):		
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(21,882)**	119,701
Change in fair value of available for sale financial assets, net of tax	**(62)**	41
Comprehensive (loss) income	**(86,494)**	27,466
Net loss per share (note 15)		
Basic	**(0.27)**	(0.42)
Diluted	**(0.27)**	(0.42)

The accompanying notes are an integral part of these consolidated financial statements.

Canadian Energy Services & Technology Corp.

Consolidated Statements of Changes in Equity
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2016	2015
COMMON SHARES		
Balance, beginning of year	**484,932**	459,053
Issued pursuant to the Offering, net of share issue costs and taxes (note 15)	**89,008**	-
Consideration for business combinations (note 4)	**25,204**	4,500
Issued pursuant to stock-based compensation (note 16)	**23,501**	21,343
Issued pursuant to stock dividend and stock settled director fee	**20**	36
Balance, end of year	**622,665**	484,932
CONTRIBUTED SURPLUS		
Balance, beginning of year	**29,430**	21,315
Reclassified pursuant to stock-based compensation (note 15)	**(21,010)**	(17,864)
Stock-based compensation expense (note 17)	**17,696**	25,979
Balance, end of year	**26,116**	29,430
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**185,280**	65,538
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(21,882)**	119,701
Change in fair value of available-for-sale financial assets	**(62)**	41
Balance, end of year	**163,336**	185,280
DEFICIT		
Balance, beginning of year	**(167,994)**	(5,869)
Net loss attributable to shareholders of the Company	**(64,550)**	(92,276)
Dividends declared (note 18)	**(10,736)**	(69,849)
Balance, end of year	**(243,280)**	(167,994)
NON-CONTROLLING INTEREST		
Balance, beginning of period	**-**	357
Net income attributable to non-controlling interest	**-**	-
Distributions declared to non-controlling interest	**-**	(357)
Balance, end of year	**-**	-
	568,837	531,648

The accompanying notes are an integral part of these consolidated financial statements.

Canadian Energy Services & Technology Corp.

Consolidated Statements of Cash Flows
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2016	2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net loss	**(64,550)**	(92,276)
Adjustments for:		
Depreciation and amortization	**61,208**	54,994
Stock-based compensation (note 16)	**17,696**	25,979
Other non-cash expenses (income)	**4,265**	(1,748)
Deferred income tax expense (recovery) (note 14)	**3,295**	(46,453)
(Gain) loss on disposal of assets	**(1,570)**	151
Impairment of goodwill	**-**	154,829
Other loss (income)	**178**	(11,628)
Change in non-cash working capital (note 22)	**36,939**	124,873
	57,461	208,721
FINANCING ACTIVITIES:		
Repayment of long-term debt and finance leases	**(8,733)**	(8,981)
Decrease in Amended Senior Facility	**(1,331)**	(56,407)
Shareholder dividends	**(14,048)**	(71,808)
Issuance of shares, net of issuance costs	**90,392**	3,479
Distributions to non-controlling interest	**-**	(357)
	66,280	(134,074)
INVESTING ACTIVITIES:		
Investment in property and equipment	**(34,844)**	(46,013)
Investment in intangible assets	**(2,035)**	(3,603)
Investment in other assets	**(1,186)**	(4,519)
Deferred acquisition consideration (note 4)	**(12,500)**	(7,623)
Business combinations (note 4)	**(61,718)**	(18,133)
Proceeds on disposal of property and equipment	**6,374**	5,244
	(105,909)	(74,647)
Effect of foreign exchange on cash	**(4,441)**	-
CHANGE IN CASH	**13,390**	-
Cash, beginning of year	**-**	-
Cash, end of year	**13,390**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**22,969**	23,539
Income taxes paid	**(15,200)**	(2,718)

The accompanying notes are an integral part of these consolidated financial statements.

1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 700 – 4th Avenue SW, Calgary, Alberta, Canada T2P 3J4. The consolidated financial statements of the Company as at and for the years ended December 31, 2016 and 2015 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company" or "CES").

CES' core business is to design, implement, and manufacture technically advanced consumable fluids and specialty chemicals for the North American oil and gas industry. CES operates under the following trade names and brands: Canadian Energy Services, AES Drilling Fluids, AES Frac Fluids, PureChem Services, Sialco Materials Ltd, JACAM Chemicals, Catalyst Oilfield Services, Superior Weighting Products, Clear Environmental Solutions, and EQUAL Transport.

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 9, 2017.

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention except for the following items in the statement of financial position:

(i) derivative financial instruments are measured at fair value; and
(ii) financial instruments at fair value through profit or loss are measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Gains and losses on translation of monetary items are recognized in the statement of (loss) and comprehensive (loss) income in finance costs, except for those foreign exchange gains or losses arising from assets and liabilities of a foreign operation, which are recognized in other comprehensive income ("OCI").

Assets and liabilities of subsidiaries having a functional currency different from the Company's presentation currency of Canadian dollars are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in OCI.

3. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

b) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on an average cost basis, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any inventory write-downs are included in cost of sales on the statement of (loss) and comprehensive (loss) income.

c) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within cost of sales on the statement of (loss) and comprehensive (loss) income.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment, including repairs and maintenance, are recognized in net income as incurred.

Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Computer equipment	3 years
Vehicles	3-5 years
Trucks and trailers	3-5 years
Field equipment	5-20 years
Processing equipment	5-15 years
Furniture and fixtures	5 years
Aircraft	5-20 years
Buildings & leasehold improvements	3-30 years
Tanks	15-20 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate. The Company reviews its property and equipment at each reporting date to determine whether there is any indication of impairment.

d) Leased assets

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets and corresponding lease obligations are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

e) Identifiable intangible assets

The Company's intangible assets include customer relationships, proprietary software, and patents with finite useful lives. Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized using the straight-line method through net income over their estimated useful lives when the realization of economic benefits begins. The estimated useful lives are as follows:

Customer relationships	5-10 years
Software	3 years
Patents and other intangibles	10-20 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively, if appropriate.

f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed based on their fair values as of the acquisition date. Goodwill acquired through a business combination is allocated to each cash generating unit ("CGU"), or group of CGUs, that is expected to benefit from the business combination. Each of these CGUs represents the lowest level within the Company at which the associated goodwill is monitored for management purposes.

g) Impairment

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss related to goodwill is not reversed.

h) Provisions

Provisions are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value as applicable. As well, the Company performs reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

i) Revenue recognition

The Company's revenue is comprised of the sale of products and the provision of services. Revenue on the sale of product is recognized at the time evidence of an arrangement exists, title to the product and risk of loss transfers to the customer, the price is fixed and determinable, and collection is reasonably assured. Revenue on the provision of services is recognized as the services are performed, when the price is fixed and determinable, and collection is reasonably assured. The Company's contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation

The Company uses the fair value method to account for Share Rights granted to employees, officers, and directors of the Company for grants under the Company's Share Rights Incentive Plan. Compensation expense for Share Rights granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant. Restricted Share Units are awarded to employees, officers and directors of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense for Restricted Share Units is based on the estimated fair value of the award at the date of grant, calculated using a five day volume weighted average share price. Compensation expense associated with share-based compensation plans is recognized in net income over the vesting period of the respective plans with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for its share-based compensation plans at the date of grant based on the number of awards expected to vest taking into consideration past experience and future expectations and are adjusted upon actual vesting.

k) Finance costs

Finance costs are comprised of interest expense on borrowings, financial derivative gains and losses, foreign currency gains and losses resulting from foreign currency transactions which are translated into the Company's functional currency, and the amortization of capitalized deferred financing costs.

l) Borrowing costs

Borrowing costs attributable to the acquisition, construction, or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized as finance costs in the statement of (loss) and comprehensive (loss) income, using the effective interest method, in the period in which they are incurred.

m) Income taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and Luxembourg based on the taxable income or loss including the transactions entered into and recorded by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. Current income tax and deferred income tax are recognized in net income, except to the extent that it relates to a business combination or items recognized directly in equity or in OCI. Where current income tax or deferred income tax arises from the initial accounting of a business combination, the tax effect is included in the accounting for the business combination, and where it arises on items recognized directly in equity or OCI the tax effect is also recognized in equity and OCI, respectively.

Current income tax expense is the expected tax payable or receivable on the taxable income or loss for the year based upon the transactions entered into and recorded by the Company and based on the estimates and calculations used during the normal course of business. Current income tax expense is recorded using tax rates enacted or substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years.

Deferred income tax expense and recoveries are recognized in respect of unused tax losses and tax credits as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates which are expected to apply to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax liability is generally recognized for all taxable temporary differences. Deferred income tax liabilities are not recognized on the following:

- taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future;
- temporary differences that arise from goodwill which is not deductible for tax purposes; and
- the initial recognition of an asset or liability in a transaction which is not a business combination.

A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Future income tax inflows and outflows are subject to estimation in terms of both timing and the amount of future taxable earnings. Should these estimates change, the carrying value of the corresponding income tax assets or liabilities will change.

n) Derivative financial instruments

Derivative financial instruments are used by the Company to manage its exposure to various market risks. The Company's policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments are classified as held for trading and are recorded at fair value on the consolidated statement of financial position as either an asset or liability with changes in fair value recognized in the consolidated statements of (loss) and comprehensive (loss) income. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in the consolidated statements of (loss) and comprehensive (loss) income at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties to settle the outstanding transactions with reference to the estimated forward prices as of the reporting date.

o) Financial instruments

i) Non-derivative financial assets:

The Company initially recognizes accounts receivable and deposits on the date that they originate. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

a. financial assets at fair value through profit or loss;
b. loans and receivables; and
c. available for sale financial assets.

Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets and liabilities are designated as fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in net income as incurred. Financial assets and liabilities designated as fair value through profit or loss are measured at fair value and their changes therein are recognized in net income. The only instruments held by the Company classified in this category are derivative financial instruments (note 3 (n)).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. The Company's accounts receivable and deposits are classified as loans and receivables.

Available for sale financial assets

Non-derivative financial assets may be designated as available for sale so long as they are not classified in another category above or as held-to-maturity investments. Available for sale financial assets are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in OCI. The Company, through its captive insurance subsidiary, holds investments for self-insured liabilities. These investments are classified as available for sale and are shown within other assets on the statement of financial position.

ii) Non-derivative financial liabilities:

All financial liabilities, including liabilities designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities; dividends payable; finance lease obligations; long-term debt; and deferred acquisition consideration. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

p) Net income or loss per share

Basic net income or loss per share is based on the income or loss attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period. The diluted net income or loss per share is based on the weighted average number of common shares outstanding during the period plus the effects of dilutive share equivalents which include the outstanding Share Rights and Restricted Share Units. Diluted net income or loss per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares.

q) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and debt incurred or assumed at the acquisition date. Costs directly attributable to the acquisition are expensed in the period incurred. The fair value of the assets and liabilities acquired is determined and compared to the fair value of the consideration paid. If the fair value of the consideration paid exceeds the fair value of the net assets acquired, then goodwill is recognized. Transaction costs associated with business combinations are expensed as incurred.

r) Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made relate to, but are not limited to, the following:

Significant judgments

Determining CGUs

For the purpose of assessing impairment of non-financial assets, the Corporation must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Corporation is the Canadian Operations and the US Operations.

Significant estimates

Accounts receivable

The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts, taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Inventories

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

Property and equipment

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

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

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

Purchase price allocations
The assets acquired and liabilities assumed are recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets, including goodwill, property and equipment, other assets, and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates, and market conditions at the date of acquisition.

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

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

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

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

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

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

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

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

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

4. Business Combinations
Catalyst Oilfield Services, LLC
On August 1, 2016, through a US subsidiary, CES completed the acquisition of all of the business assets of Catalyst Oilfield Services, LLC. (the "Catalyst Acquisition"). Catalyst was a West Texas based private company that provides production and specialty chemical solutions for a number of leading oil and natural gas companies. The acquisition of Catalyst will accelerate the expansion of the Company's US production and specialty chemicals operations with particular focus in West Texas and the Permian Basin.

The closing date of the Catalyst Acquisition was August 1, 2016. The aggregate purchase price was $90,203 (US$69,087) consisting of $61,183 (US$46,860) in cash paid on the date of acquisition, $25,204 (US$19,304) in share consideration satisfied through the issuance of 7,160,253 common shares of the Company, and $3,816 (US$2,923) in cash for other post close working capital adjustments and deferred consideration, of which $3,082 (US$2,316) was paid subsequent to close. The common shares issued to Catalyst Oilfield Services, LLC are subject to escrow provisions, with one-third of the escrowed shares being released, subject to customary industry exceptions and indemnities under the asset purchase agreement, on each of the first, second, and third anniversaries of the closing of the Catalyst Acquisition. In conjunction with the Catalyst Acquisition, the Company recorded $241 in transaction costs to general and administrative expenses during the year ended December 31, 2016.

The Company's purchase price allocation for the Catalyst Acquisition is as follows:

Allocation of purchase price $000s	
Current assets	15,565
Property and equipment	17,921
Intangible assets	13,529
Goodwill	46,630
Total assets	93,645
Current liabilities	(1,325)
Current portion of lease liabilities	(1,381)
Non-current portion of lease liabilities	(736)
Net assets acquired	90,203

Consideration given $000s	
Cash	61,183
Share consideration	25,204
Consideration payable post-close	3,816
Total consideration	90,203

From the date of this acquisition to December 31, 2016, Catalyst contributed an estimated $36,465 of revenue to the Company. The amount of profit or loss attributable to the acquisition from the date of acquisition to December 31, 2016, and the amount of revenue or profit or loss attributable to the acquisition as if the business combination had been completed on January 1, 2016, is not readily determinable.

The goodwill recognized on the Catalyst Acquisition is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company. The goodwill is expected to be deducted straight-line over 15 years for US tax purposes.

2015 Acquisitions

Sialco Acquisition

On December 9, 2015, CES completed the acquisition of all outstanding shares of Sialco Materials Limited ("Sialco"), a specialty chemical manufacturing company located in Delta, BC. The Company also acquired the land and building that Sialco operated on from 0697983 B.C. Ltd, via a real property purchase agreement. These acquisitions are collectively referred to as the Sialco Acquisition. The effective date of the Sialco Acquisition was December 1, 2015.

The aggregate purchase price of the Sialco Acquisition was $25,537, consisting of $4,500 of share consideration satisfied through the issuance of 958,163 common shares of the Company and $21,037 payable in cash, of which $19,347 was paid on the respective closing date and $1,690 is consideration payable post close related to working capital adjustments. The purchase price allocation is based upon the respective fair values as of the effective date of the acquisition. In conjunction with the Sialco Aquisition, the Company recorded $216 in transaction costs to general and administrative expenses during the year ended December 31, 2015.

The Company's purchase price allocation for the Sialco Acquisition is as follows:

Allocation of purchase price $000s	
Cash	1,214
Other current assets	2,565
Property and equipment	16,056
Intangible assets	2,216
Goodwill	7,912
Total assets	29,963
Current liabilities	(942)
Deferred income tax liability	(3,484)
Total liabilities	(4,426)
Net assets acquired	25,537

Consideration given $000s	
Cash	19,347
Share consideration	4,500
Consideration payable post-close	1,690
Total consideration	25,537

The goodwill recognized on the Sialco Acquisition is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company.

Deferred Acquisition Consideration
A summary of the changes to the Company's deferred acquisition consideration balance is presented below:

$000s	
Balance at December 31, 2015	13,697
Additions through business combinations	3,280
Changes in consideration payable post-close	231
Settlements	(12,500)
Effect of movements in exchange rates	(93)
Balance at December 31, 2016	4,615
Current portion	4,615
Long-term portion	-

Included in deferred acquisition consideration at December 31, 2016 is $3,800 in amounts payable, resulting from prior year acquisitions, to be paid if and when certain sales thresholds are achieved. As at December 31, 2016, the Company expects to pay $3,800 in the third quarter of 2017.

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2016, was $251,491 (2015 – $358,291). During the year ended December 31, 2016, the Company recorded $nil of inventory valuation write-downs and $nil inventory valuation write-down reversals (2015 – $5,565 and $nil, respectively).

6. Property and Equipment

Property and equipment are comprised of the following balances:

$000s	Balance December 31, 2015	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2016
Cost:						
Buildings & leasehold improvements	107,253	2,476	14,478	(364)	(2,014)	121,829
Trucks and trailers	60,333	3,409	3,522	(3,017)	(1,343)	62,904
Processing equipment	45,546	1,915	2,368	(72)	(1,122)	48,635
Field equipment	36,358	1,886	7,010	(1,472)	(711)	43,071
Tanks	32,448	4,062	3,958	(76)	(538)	39,854
Vehicles	38,538	2,467	9,140	(9,410)	(996)	39,739
Aircraft	26,403	588	-	-	(461)	26,530
Land	9,588	1,036	96	(6)	(132)	10,582
Office & computer equipment	11,452	82	1,246	(664)	(265)	11,851
	367,919	17,921	41,818	(15,081)	(7,582)	404,995

$000s	Balance December 31, 2015	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2016
Depreciation:					
Buildings & leasehold improvements	13,552	6,820	(65)	(170)	20,137
Trucks and trailers	26,430	10,030	(2,024)	(461)	33,975
Processing equipment	6,815	3,705	(35)	(49)	10,436
Field equipment	17,046	5,996	(649)	(368)	22,025
Tanks	6,857	2,321	(64)	(38)	9,076
Vehicles	15,309	7,367	(5,480)	(565)	16,631
Aircraft	5,619	2,252	-	(99)	7,772
Land	-	-	-	-	-
Office & computer equipment	6,791	2,258	(498)	(131)	8,420
	98,419	40,749	(8,815)	(1,881)	128,472

$000s	Balance December 31, 2015	Balance December 31, 2016
Carrying amounts:		
Buildings & leasehold improvements	93,701	101,692
Trucks and trailers	33,903	28,929
Processing equipment	38,731	38,199
Field equipment	19,312	21,046
Tanks	25,591	30,778
Vehicles	23,229	23,108
Aircraft	20,784	18,758
Land	9,588	10,582
Office & computer equipment	4,661	3,431
	269,500	276,523

$000s	Balance December 31, 2014	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2015
Cost:						
Buildings & leasehold improvements	67,669	2,795	25,667	(952)	12,074	107,253
Trucks and trailers	48,479	-	6,523	(2,173)	7,504	60,333
Processing equipment	25,541	11,845	3,145	(57)	5,072	45,546
Field equipment	26,939	322	5,725	(234)	3,606	36,358
Tanks	27,890	-	609	-	3,949	32,448
Vehicles	34,247	-	8,086	(8,396)	4,601	38,538
Aircraft	23,588	-	1,009	(739)	2,545	26,403
Land	7,655	1,031	91	(78)	889	9,588
Office & computer equipment	8,487	63	2,083	(457)	1,276	11,452
	270,495	16,056	52,938	(13,086)	41,516	367,919

$000s	Balance December 31, 2014	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2015
Depreciation:					
Buildings & leasehold improvements	8,199	4,693	(398)	1,058	13,552
Trucks and trailers	16,044	9,634	(1,395)	2,147	26,430
Processing equipment	3,634	2,376	(6)	811	6,815
Field equipment	10,215	5,328	(95)	1,598	17,046
Tanks	4,285	1,916	-	656	6,857
Vehicles	10,240	7,290	(4,379)	2,158	15,309
Aircraft	3,062	2,157	(131)	531	5,619
Land	-	-	-	-	-
Office & computer equipment	4,041	2,162	(21)	609	6,791
	59,720	35,556	(6,425)	9,568	98,419

$000s	Balance December 31, 2014	Balance December 31, 2015
Carrying amounts:		
Buildings & leasehold improvements	59,470	93,701
Trucks and trailers	32,435	33,903
Processing equipment	21,907	38,731
Field equipment	16,724	19,312
Tanks	23,605	25,591
Vehicles	24,007	23,229
Aircraft	20,526	20,784
Land	7,655	9,588
Office & computer equipment	4,446	4,661
	210,775	269,500

Borrowing costs
For the year ended December 31, 2016, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $361 (2015 – $634).

7. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

$000s	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2015	81,804	15,010	62,691	159,505	231,741
Additions through business combinations	13,318	15	196	13,529	46,630
Additions	-	1,596	439	2,035	-
Effect of movements in exchange rates	(1,434)	22	(1,194)	(2,606)	(3,866)
Balance at December 31, 2016	93,688	16,643	62,132	172,463	274,505
Amortization:					
Balance at December 31, 2015	38,838	6,542	16,839	62,219	-
Amortization for the year	11,300	3,453	5,706	20,459	-
Effect of movements in exchange rates	(769)	115	(295)	(949)	-
Balance at December 31, 2016	49,369	10,110	22,250	81,729	-
Carrying amount at December 31, 2016	**44,319**	**6,533**	**39,882**	**90,734**	**274,505**

$000s	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2014	70,116	11,155	55,663	136,934	332,870
Additions through business combinations	1,900	36	280	2,216	7,912
Additions	-	3,673	371	4,044	-
Disposals	-	(1,410)	-	(1,410)	-
Impairment of goodwill	-	-	-	-	(154,829)
Effect of movements in exchange rates	9,788	1,556	6,377	17,721	45,788
Balance at December 31, 2015	81,804	15,010	62,691	159,505	231,741
Amortization:					
Balance at December 31, 2014	24,433	3,383	9,778	37,594	-
Amortization for the year	10,346	3,573	5,519	19,438	-
Disposals	-	(1,125)	-	(1,125)	-
Effect of movements in exchange rates	4,059	711	1,542	6,312	-
Balance at December 31, 2015	38,838	6,542	16,839	62,219	-
Carrying amount at December 31, 2015	**42,966**	**8,468**	**45,852**	**97,286**	**231,741**

Impairment testing for cash-generating units containing goodwill – 2016

For the purpose of impairment testing, goodwill is allocated to the Company's CGUs which represent the lowest level within the Company at which the goodwill is monitored. Goodwill is allocated to the Company's CGUs as follows:

$000s	**Canadian Operations**	**US Operations** [(1)]	**Total**
Balance at December 31, 2015	58,530	173,211	231,741
Additions through business combinations (note 4)	-	46,630	46,630
Effect of movements in exchange rates	-	(3,866)	(3,866)
Balance at December 31, 2016	58,530	215,975	274,505

[(1)] Amounts denominated in foreign currencies have been translated at the respective year-end exchange rates

The Company's impairment analysis as of December 31, 2016, indicated that the recoverable amount of the net assets for each CGU exceeded its respective carrying value and, therefore, no impairment was recorded. The recoverable amount of the CGU's was based on their value in use. The key assumptions for the value in use calculations are the discount rates and expected growth rates. An estimated risk adjusted, pre-tax discount rate of 15% was used as at December 31, 2016 for both CGUs. The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from 29% in 2017 to 4% in later years for the Canadian Operations CGU and a range of 48% in 2017 to 4% in later years for the US Operations CGU. For both CGUs, the Company has used a 2% terminal growth rate. Future cash flows are based on various judgments and estimates including actual performance of the business, management's estimates of future performance, and indicators of future industry activity levels.

Impairment testing for cash-generating units containing goodwill – 2015
As at December 31, 2015, the Company noted indicators of impairment due to the significant decline in commodity prices and the resulting continued reduction in demand for the Company's products and services. The Company's impairment analysis indicated that the recoverable amount of the net assets for each CGU did not exceed its respective carrying value and, therefore, goodwill allocated to each CGU was impaired by, and the resultant goodwill balances were, as follows:

$000's	**Canadian Operations**	**US Operations** [(1)]	**Total**
Balance at December 31, 2014	89,762	243,108	332,870
Additions through business combinations (note 4)	7,912	-	7,912
Impairment loss	(39,144)	(115,685)	(154,829)
Effect of movements in exchange rates	-	45,788	45,788
Balance at December 31, 2015	**58,530**	**173,211**	**231,741**

(1) Amounts denominated in foreign currencies have been translated at the respective year-end exchange rates

The recoverable amount for each CGU was based on their value in use and was estimated to be $223,901 for the Canadian Operations CGU and $473,526 for the US Operations CGU. The key assumptions for the value in use calculations are the discount rates and expected growth rates. An estimated risk adjusted, pre-tax discount rate of 15% was used as at December 31, 2015 for both CGUs. The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 14% in 2016 to as high as positive 41% in later years for the Canadian Operations CGU and a range of negative 28% in 2016 to as high as positive 34% in later years for the US Operations CGU. For both CGUs, the Company has used a 2% terminal growth rate. A non-IFRS gross margin percentage averaging 28% and 29% has been used for the forecasted period of the Canadian Operations CGU and the US Operations CGU, respectively. Future cash flows are based on various judgments and estimates including actual performance of the business, management's estimates of future performance, and indicators of future industry activity levels.

The most sensitive inputs to the Company's impairment model are the discount rate and the annual growth rates. An increase of 1% in the discount rate, and all other assumptions held constant, would result in an additional goodwill impairment of $19,143 for the Canadian Operations CGU and $50,336 for the US Operations CGU. A decrease of 1% in the annual growth rates, and all other assumptions held constant, would result in an additional goodwill impairment of $4,994 for the Canadian Operations CGU and $15,454 for the US Operations CGU.

8. Other Assets

The Company holds investments within its Barbados-based captive insurance company for self-insured liabilities that are subject to insurance regulatory requirements and are categorized as available for sale.

The investment portfolio is comprised of US dollar ("USD") cash and cash equivalents and investment grade corporate and government securities as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Fixed income securities, with maturities due:		
Less than 1 year	**1,901**	1,030
1-5 years	**1,765**	348
Greater than 5 years	**483**	-
	4,149	1,378
Cash and cash equivalents	**1,522**	3,366
Equities	**574**	594
Other assets	**6,245**	5,338

Amounts denominated in foreign currencies have been translated at the respective period end exchange rates

Certain of these investments in the amount of $1,357 (December 31, 2015 - $1,399) have been pledged as collateral for letters of credit by the banker of the Company's captive insurance company in favor of the underwriting companies.

9. Long-Term Debt

On March 29, 2016, the Company completed an amendment to its existing Senior Facility ("Amended 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 include a voluntary reduction in the borrowing amount from $200,000 to a maximum of $150,000 and certain changes to the Company's debt covenants. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 1.50% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 2.50%. The Amended Senior Facility has a standby fee ranging from 0.35% to 0.56%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

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

- The ratio of Senior Funded Debt to trailing EBITDA must not exceed 2.25 to 1.00 calculated on a rolling four-quarter basis; and
- The quarterly ratio of EBITDA to interest expense, on a rolling four-quarter basis, must be more than:
  - 1.50:1.00 for the period ending December 31, 2016;
  - 1.75:1.00 for the period ending March 31, 2017; and
  - 2.00:1.00 thereafter.

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

- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. An additional amount of $3.0 million was permitted to be added to EBITDA on a one time basis for the quarter ended December 31, 2015.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.
- Senior Funded Debt is defined as Total Net Funded Debt minus the principal amount owing on the Company's Senior Notes.

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

The Company's debt covenant calculations as December 31, 2016 and December 31, 2015, are as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Senior Funded Debt to trailing EBITDA Ratio (Must be < 2.25:1.00)		
Senior Funded Debt	**4,138**	14,941
EBITDA for the four quarters ended	**53,969**	103,035
Ratio	**0.077**	0.145
EBITDA to Interest Expense (Must be > 1.50:1.00)		
EBITDA for the four quarters ended	**53,969**	103,035
Interest Expense for the four quarters ended	**23,189**	23,436
Ratio	**2.327**	4.396

As of December 31, 2016, the maximum available draw on the Amended Senior Facility was $121,430 (December 31, 2015 - $200,000), calculated as trailing EBITDA for the four quarters ended December 31, 2016, as described above, multiplied by the required Senior Funded Debt to EBITDA ratio as described above. As at December 31, 2016 the Company had a net draw of $nil (December 31, 2015 – $449), with capitalized transaction costs of $570 (December 31, 2015 – $517). Transaction costs attributable to the Amended Senior Facility are recorded as part of the Amended Senior Facility and amortized to finance costs over the remaining term.

Senior Notes
At December 31, 2016, the Company had $300,000 of outstanding principal on unsecured Senior Notes due on April 17, 2020. The Senior Notes incur interest at a rate of 7.375% per annum and interest is payable on the Senior Notes semi-annually on April 17th and October 17th. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after April 17, 2017. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt. At December 31, 2016, the estimated fair value of the Senior Notes was $317,599 (December 31, 2015– $279,410).

The Company's long-term debt is comprised of the following balances:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Amended Senior Facility	**-**	966
Senior Notes	**300,000**	300,000
	300,000	300,966
Less net unamortized debt issue costs	**(3,683)**	(4,588)
Add net unamortized debt premium	**2,453**	3,199
Long-term debt	**298,770**	299,577

For the year ended December 31, 2016, the Company recorded $24,462 (2015 – $24,717) in interest expense related to its long-term debt and lease balances, including the amortization of capitalized transaction costs.

Scheduled principal payments on the Company's long-term debt for the next five years at December 31, 2016, are as follows:

$000s	
2017	**-**
2018	**-**
2019	**-**
2020	**300,000**
2021	**-**
	300,000

10. Finance Leases

The Company leases equipment and vehicles under a number of finance lease agreements for which the underlying leased assets secure the lease obligations. The Company's vehicle leases are for terms ranging from January 2017 through April 2021 with interest rates of up to 11.64% and a weighted average interest rate of 5.17%. The carrying value of assets under finance leases at December 31, 2016 totaled $20,225 (December 31, 2015 – $19,273), of which $18,431 relates to vehicles, $1,029 relates to tanks, $643 relates to trucks and trailers, and $122 relates to other machinery and field equipment. Amortization expense relating to assets under finance leases for the year ended December 31, 2016 totaled $5,679 (2015 – $5,163).

Future minimum lease payments outstanding under the Company's finance lease obligations at December 31, 2016 are as follows:

$000s	
Less than 1 year	**7,800**
1-5 years	**7,847**
5+ years	**-**
Total lease payments	**15,647**
Amount representing implicit interest	**(926)**
Finance lease obligations	**14,721**
Less: current portion of finance lease obligations	**(7,224)**
Long-term finance lease obligations	**7,497**

11. Cost of Sales

Included in cost of sales for the year ended December 31, 2016, is depreciation charged on property and equipment of $35,779 (2015 – $31,830) and employee compensation and benefits of $98,890 (2015 – $111,629).

12. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2016, is depreciation charged on property and equipment and amortization charged on intangible assets of $25,429 (2015 – $23,164), stock-based compensation of $17,696 (2015 – $25,979), and employee compensation and benefits of $52,097 (2015 – $51,281).

13. Finance Costs

The Company recognized the following finance expenses in its consolidated statements of (loss) and comprehensive (loss) income:

	Year Ended December 31,	
$000s	**2016**	2015
Realized foreign exchange loss (gain)	**1,746**	(2,043)
Unrealized foreign exchange (gain) loss	**26**	(205)
Realized financial derivative loss (gain)	**(1,908)**	(2,497)
Unrealized financial derivative (gain) loss	**2,928**	(2,914)
Amortization of debt issue costs and premium	**1,271**	1,311
Interest on debt, net of interest income	**23,306**	24,040
Less: capitalized interest	**(361)**	(634)
Finance costs	**27,008**	17,058

14. Income Taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and Luxembourg based on the taxable income or loss including the transactions entered into and recorded by the Company and based on the estimates and calculations used by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. The provision for corporate income taxes consists of:

	Year Ended December 31,	
$000s	**2016**	2015
Current income tax expense (recovery)		
Current year income tax (recovery) expense	**(4,718)**	(13,798)
Prior year income tax expense adjustment	**6,917**	304
Total current income tax expense (recovery)	**2,199**	(13,494)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**3,341**	(45,830)
Adjustments for prior years	**(46)**	(623)
Total deferred income tax expense (recovery)	**3,295**	(46,453)
Total income tax expense (recovery)	**5,494**	(59,947)

The variation between the provision computed at the statutory income tax rate and the Company's provision is explained as follows:

	Year Ended December 31,	
$000s	**2016**	2015
Loss before taxes	**(59,056)**	(152,223)
Combined Canadian statutory rate	**26.92%**	26.22%
Provision for income taxes computed at the Canadian statutory rate	**(15,899)**	(39,913)
Effects on taxes resulting from		
Non-deductible expenses	**1,482**	(300)
Stock-based compensation	**2,718**	4,121
Deductions for tax in excess of accounting, net	**(14,896)**	(12,787)
Adjustment of prior year taxes	**(132)**	(318)
Proposed CRA settlement	**7,003**	-
Non-taxable capital gains or losses	**117**	-
Income tax in jurisdictions with different tax rates	**(9,308)**	(13,562)
Foreign exchange	**14**	(2,995)
Impact of tax loss carryback to a prior year with different tax rate	**333**	-
Tax losses for which no deferred income tax asset was recognized	**34,062**	-
Change in statutory rate	**-**	319
Goodwill Impairment	**-**	5,855
(Recognition) of capital and non-capital losses	**-**	(367)
Income tax expense (recovery)	**5,494**	(59,947)

The components of deferred income tax assets and liabilities are as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Property and equipment	**26,296**	30,360
Goodwill and other intangible assets	**(20,408)**	(27,183)
Financing costs and other tax credits	**(982)**	(493)
Other temporary differences	**(5,627)**	(5,931)
Non-capital losses	**(38,059)**	(5,077)
Capital losses	**(1,894)**	(6,051)
Unrecognized tax benefit, net	**35,900**	6,914
Total, net deferred income tax (asset) liability	**(4,774)**	(7,461)
Deferred income tax (asset)	**(11,473)**	(15,069)
Deferred income tax liability	**6,699**	7,608

For the purposes of the preceding table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction.

(stated in thousands of Canadian dollars, except for share and per share amounts)

The movement in deferred income tax liabilities and assets, without taking into consideration the offsetting of balances within the same tax jurisdiction, is:

	Year Ended December 31,	
	2016	2015
Deferred income tax liabilities:		
Charged (credited) to earnings	**379**	(26,898)
Charged (credited) to goodwill	**-**	3,485
Charged (credited) to equity	**(1,288)**	-
	(909)	(23,413)
Deferred income tax assets:		
Charged (credited) to earnings	**3,098**	(19,555)
Charged (credited) to equity	**498**	4,497
	3,596	(15,058)
Net Movement	**2,687**	(38,471)

No deferred tax liability has been recognized as at December 31, 2016 on temporary differences associated with investments in subsidiaries where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

Tax loss carry forwards that can be utilized in future years are as follows:

	As at December 31, 2016	Expiration Date
Canada:		
Non-capital losses	**4,340**	2031-2036
Net capital losses	**14,073**	Indefinite
United States:		
Non-capital losses	**97,464**	2035-2036

As at December 31, 2016 there are unrecognized deferred income tax assets relating to these tax pools of $37,791 (December 31, 2015 - $6,914). These have not been recognized due to the uncertainty over realization of the respective loss pools.

In 2014, the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which stated its intent to challenge the Canadian tax consequences of the Company's conversion from a publicly-traded Canadian limited partnership to a publicly-traded corporation (the "Conversion"). The CRA's position is based on the acquisition of control rules and the general anti-avoidance rules in the Income Tax Act (Canada). If the CRA issues notices of reassessment in respect of the Company's 2010, 2011, and 2012 taxation years, CES would be required to remit to the CRA 50% of the tax liability claimed by the CRA in order to appeal such reassessments. If such reassessments are issued and maintained on appeal, CES will be obligated to remit cash taxes of approximately $16,000 for the three taxation years, plus approximately $4,773 in interest to December 31, 2016. While the Company continues to believe its returns were correctly filed and it has not yet received any notices of reassessment relating to this matter, it has proposed a settlement offer to the CRA. A current tax expense of $7,000 has been accrued in the Company'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.

15. Share Capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued and outstanding
A summary of the changes to common share capital is presented below:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
***Common Shares** ($000s, except number of shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**220,424,818**	**484,932**	215,512,074	459,053
Issued pursuant to the Offering, net of share issue costs and taxes	**30,670,500**	**89,008**	-	-
Consideration for business combinations	**7,160,253**	**25,204**	958,163	4,500
Issued pursuant to stock-based compensation	**4,040,160**	**2,491**	3,948,017	3,479
Contributed surplus related to stock-based compensation	**-**	**21,010**	-	17,864
Issued pursuant to stock dividend and stock settled director fee	**5,268**	**20**	6,564	36
Balance, end of year	**262,300,999**	**622,665**	220,424,818	484,932

Prospectus Offering
On June 8, 2016, the Company, through a syndicate of underwriters, completed a bought deal short-form prospectus offering (the "Offering") of common shares. Pursuant to the Offering, the Company issued a total of 30,670,500 common shares of the Company for gross proceeds of $92,012 million. Net proceeds, after offering expenses and underwriter's commission of approximately $4,141 million, were $87,902 million.

c) Net loss per share
In calculating the basic and diluted net loss per share for the year ended December 31, 2016 and 2015, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
$000s, except share and per share amounts	**2016**	2015
Net loss	**(64,550)**	(92,276)
Weighted average number of shares outstanding:		
Basic shares outstanding	**243,171,601**	217,846,960
Effect of dilutive shares	**-**	-
Diluted shares outstanding	**243,171,601**	217,846,960
Net loss per share - basic	**($0.27)**	($0.42)
Net loss per share - diluted	**($0.27)**	($0.42)

Excluded from the calculation of dilutive shares for the year ended December 31, 2016, are 14,045,400 of Share Rights and 4,858,585 of Restricted Share Units (2015 – 11,248,244 of Share Rights and 4,892,227 of Restricted Share Units) that are considered anti-dilutive.

16. Stock-Based Compensation

As at December 31, 2016, a total of 26,230,100 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 7,326,115 common shares remained available for grant. For the year ended December 31, 2016, stock compensation expense of $17,696 (2015 – $25,979) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

a) Share Rights Incentive Plan ("SRIP")
CES' SRIP provides incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the date of the grant. Under the SRIP, employees may elect to exercise the Share Rights at an adjusted exercise price in which the option exercise price will be adjusted downwards by the cumulative dividends paid by the Company.

(stated in thousands of Canadian dollars, except for share and per share amounts)

A summary of changes under the SRIP is presented below:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**11,248,244**	**$7.07**	6,344,044	$6.22
Granted during the year	**4,758,000**	**4.40**	6,650,000	6.87
Exercised during the year	**(694,344)**	**3.59**	(1,490,800)	2.33
Expired during the year	**(27,000)**	**3.44**	-	-
Forfeited during the year	**(1,239,500)**	**7.64**	(255,000)	7.23
Balance, end of year	**14,045,400**	**$6.26**	11,248,244	$7.07
Exercisable Share Rights, end of year	**4,996,066**	**$7.18**	2,913,244	$6.27

The compensation costs for Share Rights granted during the year ended December 31, 2016, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2016
Risk-free interest rate	**0.60%**
Expected average life of Share Rights	**3.0 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**6.16%**
Dividend yield	**0.36%**
Expected volatility	**58.00%**
Weighted average share price	**$4.40**
Weighted average fair value per Share Right	**$1.69**

The following table summarizes information about the outstanding grants under the Company's SRIP as at December 31, 2016:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$3.10 - $4.74	4,960,400	4.06	4.08	670,400	3.58
$4.75 - $6.77	738,000	6.16	3.73	246,000	6.06
$6.78 - $7.09	5,094,000	6.92	3.38	1,675,333	6.92
$7.10 - $7.48	1,804,000	7.26	2.54	1,438,333	7.26
$7.45 - $10.98	1,449,000	10.29	2.38	966,000	10.29
	14,045,400	$6.26	3.44	4,996,066	$7.18

b) Restricted Share Unit ("RSU") Plan

CES' RSU Plan provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSUs. The RSUs generally vest from one year, and up to three years, on the anniversary from the date of grant, subject to other such vesting schedules or conditions as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested.

A summary of changes under the RSU plan is presented below:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**4,892,227**	**$6.32**	4,093,785	$7.03
Granted during the year	**3,489,701**	**4.38**	3,103,652	5.80
Reinvested during the year	**71,839**	**6.09**	270,342	6.53
Vested during the year	**(3,345,816)**	**6.06**	(2,457,217)	6.85
Forfeited during the year	**(249,366)**	**7.25**	(118,335)	6.89
Balance, end of year	**4,858,585**	**$6.19**	4,892,227	$6.32

The weighted average fair value of RSUs granted during the year ended December 31, 2016, was $4.38 per RSU (2015 - $5.80). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the year ended December 31, 2016, was reduced by an estimated weighted average forfeiture rate of 3.25% per year at the date of grant.

17. Contributed Surplus

The Company's contributed surplus relates to the Company's stock-based compensation plans and is comprised of the following balances:

$000s	**Year Ended December 31, 2016**	Year Ended December 31, 2015
Contributed surplus, beginning of year	**29,430**	21,315
Reclassified pursuant to stock-based compensation	**(21,010)**	(17,864)
Stock-based compensation expense	**17,696**	25,979
Contributed surplus, end of year	**26,116**	29,430

18. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2016, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 29	Feb 12	$0.0180	**3,971**
February	Feb 29	Mar 15	$0.0025	**552**
March	Mar 31	Apr 15	$0.0025	**556**
April	Apr 29	May 13	$0.0025	**556**
May	May 31	Jun 15	$0.0025	**558**
June	Jun 30	Jul 15	$0.0025	**635**
July	Jul 29	Aug 15	$0.0025	**635**
August	Aug 31	Sep 15	$0.0025	**654**
September	Sep 30	Oct 14	$0.0025	**654**
October	Oct 31	Nov 15	$0.0025	**654**
November	Nov 30	Dec 15	$0.0025	**655**
December	Dec 30	Jan 13	$0.0025	**656**
Total dividends declared during the period			$0.0455	**10,736**

Subsequent to December 31, 2016, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on February 15, 2017 and March 15, 2017, for shareholders of record on January 31, 2017 and February 28, 2017, respectively.

19. Commitments

The Company has commitments with payments due as follows:

$000s	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Office and facility rent	6,341	5,214	3,561	2,030	1,098	**18,244**

Payments denominated in foreign currencies have been translated using the appropriate December 31, 2016 exchange rate

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

20. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The classification of financial instruments remains consistent at December 31, 2016 with that as at December 31, 2015. The carrying values of accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value. The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on December 31, 2016. The estimated fair value of the Senior Notes is based on level 2 inputs as the inputs are observable through correlation with market data.

CES classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following table aggregates the Company's financial derivatives and investments available for sale in accordance with the above hierarchy:

$000s	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2016					
Financial derivative asset	20	20	-	20	-
Financial derivative liability	(588)	(588)	-	(588)	-
Other assets	6,245	6,245	6,245	-	-
	5,677	5,677	6,245	(568)	-
As at December 31, 2015					
Financial derivative asset	2,453	2,453	-	2,453	-
Financial derivative liability	(93)	(93)	-	(93)	-
Other assets	5,338	5,338	5,338	-	-
	7,698	7,698	5,338	2,360	-

b) Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Company. The Company manages credit risk by assessing the creditworthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accounts receivable are primarily comprised of balances from customers operating primarily in the oil and natural gas industry. Accordingly, the Company views the credit risks on these amounts as normal for the industry.

An analysis of accounts receivable, net of impairment provisions, which are past due but not impaired is as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Past due 61-90 days	**12,112**	15,030
Past due 91-120 days	**3,596**	7,187
Past 120 days	**6,436**	13,473
Total past due	**22,144**	35,690

The Company reduces an account receivable to its estimated recoverable amount. At December 31, 2016, the Company had recorded a provision of $2,999 (December 31, 2015 – $2,903) relating to accounts receivable which may not be collectible.

The change in the provision for doubtful accounts is as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Balance, beginning of year	**2,903**	1,735
Additional allowance	**1,143**	1,638
Amounts used	**(986)**	(652)
Effect of movements in exchange rates	**(61)**	182
Balance, end of year	**2,999**	2,903

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2016, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $58 lower/higher for the respective year ended December 31, 2016 (2015 – $84 lower/higher).

d) 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 Company's foreign currency risk arises from its working capital balances denominated in foreign currencies and on the investment in its foreign operations. The Company uses the USD as its functional currency in its US operations and in its other foreign jurisdictions. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2016, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to decrease/increase net income by approximately $426 (2015 – decrease/increase $1,164).

At December 31, 2016, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD dividend payments and USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD$000's	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2017	US$2,000	Deliverable Forward	Physical Purchase	$1.3396
February 2017	US$2,000	Deliverable Forward	Physical Purchase	$1.3393
March 2017	US$2,000	Deliverable Forward	Physical Purchase	$1.3391
Total	US$6,000			$1.3393

Period	Notional Call USD$000's	Notional Put USD$000's	Settlement	Average USDCAD Exchange Rate
January 2017	$2,000	$4,000	Physical Purchase	$1.3921
February 2017	$2,000	$4,000	Physical Purchase	$1.4250
March 2017	$2,000	$4,000	Physical Purchase	$1.3471
Total	$6,000	$12,000		$1.3881

In addition to the contracts noted above, the Company also entered into a zero-cost collar with the option to sell US$600 in January 2017, with a USDCAD strike price of $1.28 and a participation rate of $1.50.

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated statement of financial position. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their relative short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Company has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the consolidated statement of financial position as assets or liabilities with changes in their fair value recorded in net income for the period.

The Company recognized the following relating to its foreign currency derivative contracts in its consolidated statements of (loss) and comprehensive (loss) income:

	Year Ended December 31,	
$000s	**2016**	2015
Realized financial derivative (gain)	**(1,908)**	(2,497)
Unrealized financial derivative loss (gain)	**2,928**	(2,914)
Financial derivative loss (gain)	**1,020**	(5,411)

The fair value of these outstanding risk management contracts is outlined below:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Financial derivative asset	**20**	2,453
Financial derivative liability	**(588)**	(93)

At December 31, 2016, a 1% decrease in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase to net income of $344 (2015 – $331) and a 1% increase in the Canadian dollar vis-à-vis the US dollar is estimated to result in a decrease to net income of $45 (2015 –$347) as a result of the change in fair value of these outstanding contracts.

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2016, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by maintaining a committed facility and through management of its operational cash flows.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2016:

	Payments Due By Period [1]					
$000s	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	81,701	-	-	-	-	**81,701**
Dividends payable [2]	656	-	-	-	-	**656**
Income taxes payable	-	2,372	-	-	-	**2,372**
Deferred acquisition consideration	-	4,615	-	-	-	**4,615**
Senior Notes [4]	-	-	-	300,000	-	**300,000**
Interest on Senior Notes	-	22,125	22,125	33,188	-	**77,438**
Finance lease obligations at floating interest rates [3]	1,244	5,980	4,710	2,787	-	**14,721**
Office operating leases	1,171	5,170	5,214	6,689	3,069	**21,313**
	84,772	40,262	32,049	342,664	3,069	**502,816**

Notes:

[1] *Payments denominated in foreign currencies have been translated using the appropriate December 31, 2016 exchange rate*

[2] *Dividends declared as of December 31, 2016*

[3] *Finance lease obligations reflect principal payments and excludes any associated interest portion*

[4] *The Senior Notes are due on April 17, 2020*

21. Capital Management

For the year ended December 31, 2016, the Company considers capital to include shareholders' equity and long-term debt (including current portion). This remains consistent with the year ended December 31, 2015. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain and grow the business while incurring an acceptable level of risk while providing shareholders with a sustainable and prudent level of dividends.

The overall capitalization of the Company is as follows:

	As at	
$000s	**December 31, 2016**	December 31, 2015
Long-term debt [1]	**300,000**	300,966
Shareholders' equity	**568,837**	531,648
Total capitalization	**868,837**	832,614

[1] *Includes: Senior Notes and current portion of long-term debt*

Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, CES may adjust the level of dividends paid to shareholders, issue new shares, dispose of assets, repay debt, or incur new debt.

In addition to monitoring the external financial covenants as detailed in note 9, the Company manages capital by analyzing working capital levels, forecasted cash flows, planned investments in property and equipment, and general economic conditions. The Company is subject to certain financial covenants in its credit facility. As at December 31, 2016, the Company is in compliance with all of the financial requirements under all its lending agreements.

22. Supplemental Information

The changes in non-cash working capital were as follows:

	Year Ended December 31,	
$000s	**2016**	2015
Decrease in current assets		
Accounts receivable	**7,316**	129,246
Inventory	**5,045**	37,516
Prepaid expenses and deposits	**2,183**	12,535
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**21,772**	(54,110)
	36,316	125,187
Relating to:		
Operating activities	**36,939**	124,873
Investing activities	**(623)**	314

For the years ended December 31, 2016 and 2015, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

23. Geographical Information

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

	Revenue	
	Year Ended December 31,	
$000s	**2016**	2015
Canada	**195,910**	234,692
United States	**371,816**	514,922
	567,726	749,614

	Long-Term Assets [1]	
$000s	**December 31, 2016**	December 31, 2015
Canada	**166,850**	166,361
United States	**481,157**	437,504
	648,007	603,865

[1] *Includes: Property and equipment, intangible assets, other assets and goodwill*

24. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2016, remuneration of $8,024 included

(stated in thousands of Canadian dollars, except for share and per share amounts)

$2,139 of salaries and cash-based compensation and $5,885 of stock-based compensation costs (December 31, 2015 – $2,248 and $10,660, respectively).

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

25. Significant Subsidiaries

The Company operates through two significant subsidiaries based on geographic location:

	Country of	Ownership Interest %	
Subsidiary Name	Incorporation	**December 31, 2016**	December 31, 2015
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

26. Economic Dependence

For the year ended December 31, 2016, one customer accounted for 10% (2015 – 14%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

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