# Condensed Consolidated Financial Statements

**For the Three Months Ended March 31, 2016 and 2015**

## Canadian Energy Services & Technology Corp.

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

| | As at | |
|---|---|---|
| | **March 31, 2016** | December 31, 2015 |
| ASSETS | | |
| Current assets | | |
| Cash | **12,677** | - |
| Accounts receivable | **116,615** | 157,988 |
| Financial derivative asset (note 11) | **4** | 2,453 |
| Income taxes receivable | **18,678** | 18,022 |
| Inventory | **114,074** | 121,258 |
| Prepaid expenses and deposits | **5,467** | 12,882 |
| | **267,515** | 312,603 |
| Property and equipment (note 3) | **254,796** | 269,500 |
| Intangible assets | **88,656** | 97,286 |
| Deferred income tax asset | **15,167** | 15,069 |
| Other assets (note 4) | **4,953** | 5,338 |
| Goodwill | **221,055** | 231,741 |
| | **852,142** | 931,537 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **49,323** | 60,169 |
| Financial derivative liability (note 11) | **2,069** | 93 |
| Dividends payable (note 9) | **556** | 3,968 |
| Income taxes payable | **761** | 802 |
| Current portion of deferred acquisition consideration | **8,255** | 9,897 |
| Current portion of finance lease obligations | **6,672** | 7,452 |
| | **67,636** | 82,381 |
| Deferred acquisition consideration | **3,800** | 3,800 |
| Long-term debt (note 5) | **298,465** | 299,577 |
| Finance lease obligations | **5,705** | 6,523 |
| Deferred income tax liability | **8,210** | 7,608 |
| | **383,816** | 399,889 |
| Commitments (note 10) | | |
| Shareholders' equity | | |
| Common shares (note 7) | **495,666** | 484,932 |
| Contributed surplus | **25,062** | 29,430 |
| Deficit | **(196,666)** | (167,994) |
| Accumulated other comprehensive income | **144,264** | 185,280 |
| | **468,326** | 531,648 |
| | **852,142** | 931,537 |

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

## Canadian Energy Services & Technology Corp.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| Revenue | **137,149** | 233,762 |
| Cost of sales | **113,239** | 176,531 |
| Gross margin | **23,910** | 57,231 |
| General and administrative expenses | **39,016** | 36,225 |
| Operating (loss) profit | **(15,106)** | 21,006 |
| Finance costs | **10,223** | 4,497 |
| Other loss | **231** | - |
| (Loss) income before taxes | **(25,560)** | 16,509 |
| Current income tax (recovery) expense | **(1,546)** | 427 |
| Deferred income tax (recovery) expense | **(421)** | 2,005 |
| Net (loss) income | **(23,593)** | 14,077 |
| Net (loss) income attributable to: | | |
| Shareholders of the Company | **(23,593)** | 13,911 |
| Non-controlling interest | **-** | 166 |
| | **(23,593)** | 14,077 |
| Other comprehensive (loss) gain (items that may be subsequently reclassed to profit and loss): | | |
| Unrealized foreign exchange (loss) gain on translation of foreign operations attributable to: | | |
| Shareholders of the Company | **(41,020)** | 60,751 |
| Non-controlling interest | **-** | 35 |
| Change in fair value of available for sale financial assets, net of tax attributable to: | | |
| Shareholders of the Company | **4** | - |
| Comprehensive (loss) income | **(64,609)** | 74,863 |
| Comprehensive (loss) income attributable to: | | |
| Shareholders of the Company | **(64,609)** | 74,662 |
| Non-controlling interest | **-** | 201 |
| | **(64,609)** | 74,863 |
| Net (loss) income per share (note 7) | | |
| Basic | **(0.11)** | 0.06 |
| Diluted | **(0.11)** | 0.06 |

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

**Canadian Energy Services & Technology Corp.**
Condensed Consolidated Statements of Changes in Equity (unaudited)
(stated in thousands of Canadian dollars)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| COMMON SHARES | | |
| Balance, beginning of period | **484,932** | 459,053 |
| Issued pursuant to stock-based compensation (note 8) | **10,734** | 9,983 |
| Issued pursuant to stock dividend and stock settled director fee | **-** | 7 |
| Balance, end of period | **495,666** | 469,043 |
| CONTRIBUTED SURPLUS | | |
| Balance, beginning of period | **29,430** | 21,315 |
| Reclassified pursuant to stock-based compensation (note 7) | **(10,734)** | (9,666) |
| Stock-based compensation expense (note 8) | **6,366** | 5,168 |
| Balance, end of period | **25,062** | 16,817 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | |
| Balance, beginning of period | **185,280** | 65,538 |
| Unrealized foreign exchange (loss) gain on translation of foreign operations | **(41,020)** | 60,786 |
| Change in fair value of available-for-sale financial assets | **4** | - |
| Balance, end of period | **144,264** | 126,324 |
| DEFICIT | | |
| Balance, beginning of period | **(167,994)** | (5,869) |
| Net (loss) income attributable to shareholders of the Company | **(23,593)** | 13,911 |
| Dividends declared (note 9) | **(5,079)** | (17,848) |
| Balance, end of period | **(196,666)** | (9,806) |
| NON-CONTROLLING INTEREST | | |
| Balance, beginning of period | **-** | 357 |
| Net income attributable to non-controlling interest | **-** | 166 |
| Distributions declared to non-controlling interest | **-** | (246) |
| Balance, end of period | **-** | 277 |
| | **468,326** | 602,655 |

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

**Canadian Energy Services & Technology Corp.**
Condensed Consolidated Statements of Cash Flows (unaudited)
(stated in thousands of Canadian dollars)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| CASH PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES: | | |
| Net (loss) income | **(23,593)** | 14,077 |
| Adjustments for: | | |
| Depreciation and amortization | **15,374** | 13,227 |
| Stock-based compensation (note 8) | **6,366** | 5,168 |
| Non-cash expenses | **4,741** | 474 |
| Deferred income tax (recovery) expense | **(421)** | 2,005 |
| Gain on disposal of assets | **(360)** | (187) |
| Other loss | **231** | - |
| Change in non-cash working capital (note 12) | **35,377** | 22,448 |
| | **37,715** | 57,212 |
| FINANCING ACTIVITIES: | | |
| Repayment of long-term debt and finance leases | **(2,219)** | (2,987) |
| Decrease in Amended Senior Facility | **(966)** | (22,983) |
| Shareholder dividends | **(8,491)** | (17,806) |
| Issuance of shares, net of issuance costs | **-** | 317 |
| Distributions to non-controlling interest | **-** | (246) |
| | **(11,676)** | (43,705) |
| INVESTING ACTIVITIES: | | |
| Investment in property and equipment | **(8,759)** | (14,537) |
| Investment in intangible assets | **(330)** | (476) |
| Deferred acquisition consideration | **(1,690)** | - |
| Proceeds on disposal of property and equipment | **1,544** | 1,506 |
| | **(9,235)** | (13,507) |
| Effect of foreign exchange on cash | **(4,127)** | - |
| CHANGE IN CASH | **12,677** | - |
| Cash, beginning of period | **-** | - |
| Cash, end of period | **12,677** | - |
| SUPPLEMENTARY CASH FLOW DISCLOSURE | | |
| Interest paid | **516** | 579 |
| Income taxes (recovered) paid | **(4)** | 487 |

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

## 1. The Company

Canadian Energy Services & Technology Corp. (the "Company" or "CES") is a company domiciled in Canada. These unaudited condensed consolidated financial statements of the Company as at and for the three months ended March 31, 2016 and 2015 comprise 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 oil and gas industry. 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. CES' business units include: Canadian Energy Services, AES Drilling Fluids, AES Frac Fluids, PureChem Services, Sialco Materials Ltd, JACAM Chemicals, Clear Environmental Solutions, and EQUAL Transport.

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.

## 2. Basis of Presentation

*Statement of Compliance*

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard ("IAS") 34, *"Interim Financial Reporting"*, following the same accounting principles and methods of computation as outlined in the Company's consolidated financial statements for the year ended December 31, 2015. There were no new or amended accounting standards or interpretations adopted during the three months ended March 31, 2016. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

These unaudited condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2015. These unaudited condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on May 12, 2016.

## 3. Property and Equipment

Property and equipment are comprised of the following balances:

| | **As at March 31, 2016** | | | As at December 31, 2015 | | |
|---|---|---|---|---|---|---|
| *$000's* | **Cost** | **Accumulated Depreciation** | **Carrying Value** | Cost | Accumulated Depreciation | Carrying Value |
| Buildings | **95,239** | **(10,720)** | **84,519** | 96,851 | (10,044) | 86,807 |
| Trucks and trailers | **55,902** | **(26,706)** | **29,196** | 60,333 | (26,430) | 33,903 |
| Processing equipment | **44,677** | **(8,376)** | **36,301** | 45,546 | (6,815) | 38,731 |
| Field equipment | **36,540** | **(17,738)** | **18,802** | 36,358 | (17,046) | 19,312 |
| Vehicles | **36,660** | **(15,056)** | **21,604** | 38,538 | (15,309) | 23,229 |
| Tanks | **31,233** | **(7,213)** | **24,020** | 32,448 | (6,857) | 25,591 |
| Aircraft | **25,420** | **(5,923)** | **19,497** | 26,403 | (5,619) | 20,784 |
| Leasehold improvements | **11,776** | **(4,425)** | **7,351** | 10,402 | (3,508) | 6,894 |
| Land | **9,251** | **-** | **9,251** | 9,588 | - | 9,588 |
| Computer equipment | **7,646** | **(5,016)** | **2,630** | 7,841 | (4,925) | 2,916 |
| Furniture and fixtures | **3,637** | **(2,012)** | **1,625** | 3,611 | (1,866) | 1,745 |
| | **357,981** | **(103,185)** | **254,796** | 367,919 | (98,419) | 269,500 |

### 4. 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 cash and cash equivalents and investment grade corporate and government securities as follows:

| | As at | |
|---|---|---|
| *$000's* | **March 31, 2016** | December 31, 2015 |
| Fixed income securities, with maturities due: | | |
| Less than 1 year | **159** | 1,030 |
| 1-5 years | **327** | 348 |
| | **486** | 1,378 |
| Cash and cash equivalents | **3,905** | 3,366 |
| Equities | **562** | 594 |
| Other assets | **4,953** | 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 $1,313 (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.

### 5. 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 $150,000 and certain changes to the Company's debt covenants as outlined below. Amounts drawn on the Amended Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.75% to 1.50% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.75% to 2.50%. The Amended Senior Facility has a standby fee ranging from 0.35% to 0.56%. The applicable pricing margins are based on a sliding scale of Senior Funded Debt to EBITDA ratio. The obligations and indebtedness under the Amended Senior Facility are secured by all of the assets of CES and its subsidiaries.

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

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

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

- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. An additional amount of $3.0 million was permitted to be added to EBITDA on a one time basis for the quarter ended December 31, 2015.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not

yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

- Senior Funded Debt is defined as Total Net Funded Debt minus the principal amount owing on the Company's Senior Notes.

The above noted definitions are not recognized under IFRS and are provided strictly for the purposes of the Company's Amended Senior Facility covenant calculations.

As at March 31, 2016, the Company was in compliance with the terms and covenants of its lending agreements. The Company's Amended Senior Facility financial covenant calculations as at March 31, 2016 and December 31, 2015, as amended, are as follows:

| | As at | |
|---|---|---|
| *$000's* | **March 31, 2016** | December 31, 2015 |
| Senior Funded Debt to trailing EBITDA Ratio (Must be < 2.25:1.00) | | |
| Senior Funded Debt | **345** | 14,941 |
| EBITDA for the four quarters ended | **70,159** | 103,035 |
| Ratio | **0.005** | 0.145 |
| | | |
| EBITDA to Interest Expense (Must be > 2.00:1.00) | | |
| EBITDA for the four quarters ended | **70,159** | 103,035 |
| Interest Expense for the four quarters ended | **23,234** | 23,436 |
| Ratio | **3.020** | 4.396 |

As of March 31, 2016, the maximum available draw on the Amended Senior Facility was $150,000 (December 31, 2015 - $200,000) and the Company had a net draw of $nil (December 31, 2015 – $449), with capitalized transaction costs of $716 (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.

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

| | As at | |
|---|---|---|
| *$000's* | **March 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 | **(4,549)** | (4,588) |
| Add net unamortized debt premium | **3,014** | 3,199 |
| Long-term debt | **298,465** | 299,577 |

For the three months ended March 31, 2016, the Company recorded $6,147 (2015 – $6,366) 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 March 31, 2016, are as follows:

| *$000's* | |
|---|---|
| 2016 - 9 months | - |
| 2017 | - |
| 2018 | - |
| 2019 | - |
| 2020 | **300,000** |
| Total | **300,000** |

## 6. 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. As at March 31, 2016 there are unrecognized deferred income tax assets of $15,635 (December 31, 2015 - $6,914) which have not been recognized due to the uncertainty over realization of the respective tax pools.

In August 2014, the Company received a proposal letter from the Canada Revenue Agency (the "CRA") which stated its intent to challenge the Canadian tax consequences of the Company's conversion from a publicly-traded Canadian limited partnership to a publicly-traded corporation (the "Conversion"). The CRA's position is based on the acquisition of control rules and the general anti-avoidance rules in the Income Tax Act (Canada). If the CRA issues notices of reassessment in respect of the Company's 2010, 2011, and 2012 taxation years, CES would be required to remit to the CRA 50% of the tax liability claimed by the CRA in order to appeal such reassessments. If such reassessments are issued and maintained on appeal, CES will be obligated to remit cash taxes of approximately $16,000 for the three taxation years, plus applicable interest. CES provided a response to the proposal letter in September 2014, as well as a further submission in June 2015, and to date, no notice of reassessment has been received.

The impact of the CRA proposal on CES' tax provision has been considered by management and the Company remains confident that the tax returns as filed correctly reported the Canadian tax consequences of the Conversion transaction. If the proposed reassessments are issued by the CRA, management intends to vigorously defend CES' tax filing position. No amount has been provided for in the Company's March 31, 2016 unaudited condensed consolidated financial statements related to the Conversion.

## 7. 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:

| | **Three Months Ended March 31, 2016** | | Year Ended December 31, 2015 | |
|---|---|---|---|---|
| ***Common Shares** ($000's except number of shares)* | **Number of Shares** | **Amount** | Number of Shares | Amount |
| Balance, beginning of period | **220,424,818** | **484,932** | 215,512,074 | 459,053 |
| Consideration for business combinations | **-** | **-** | 958,163 | 4,500 |
| Issued pursuant to stock-based compensation | **1,944,266** | **-** | 3,948,017 | 3,479 |
| Contributed surplus related to stock-based compensation | **-** | **10,734** | - | 17,864 |
| Issued pursuant to stock dividend and stock settled director fee | **-** | **-** | 6,564 | 36 |
| Balance, end of period | **222,369,084** | **495,666** | 220,424,818 | 484,932 |

*c) Net (loss) income per share*

In calculating the basic and diluted net (loss) income per share for the three months ended March 31, 2016 and 2015, the weighted average number of shares used in the calculation is shown in the table below:

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's, except share and per share amounts* | **2016** | 2015 |
| Net (loss) income [1] | **(23,593)** | 13,911 |
| Weighted average number of shares outstanding: | | |
| Basic shares outstanding | **220,928,336** | 216,131,621 |
| Effect of dilutive shares | **-** | 5,118,972 |
| Diluted shares outstanding | **220,928,336** | 221,250,593 |
| Net (loss) income per share - basic | **($0.11)** | $0.06 |
| Net (loss) income per share - diluted | **($0.11)** | $0.06 |

[1] Represents net (loss) income attributable to shareholders of the Company.

Excluded from the calculation of dilutive shares for the three months ended March 31, 2016, are 11,983,244 of Share Rights and 3,278,525 of Restricted Share Units (2015 – 3,481,500 of Share Rights) that are considered anti-dilutive.

## 8. Stock-Based Compensation

As at March 31, 2016, a total of 22,236,908 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 6,975,139 common shares remained available for grant. For the three months ended March 31, 2016, stock compensation expense of $6,366 (2015 – $5,168) 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.

A summary of changes under the SRIP is presented below:

| | **Three Months Ended March 31, 2016** | | Year Ended December 31, 2015 | |
|---|---|---|---|---|
| | **Share Rights** | **Average Exercise Price** | Share Rights | Average Exercise Price |
| Balance, beginning of period | **11,248,244** | **$7.07** | 6,344,044 | $6.22 |
| Granted during the period | **960,000** | **3.10** | 6,650,000 | 6.87 |
| Exercised during the period | **-** | **-** | (1,490,800) | 2.33 |
| Forfeited during the period | **(225,000)** | **7.21** | (255,000) | 7.23 |
| Balance, end of period | **11,983,244** | **$6.75** | 11,248,244 | $7.07 |
| Exercisable Share Rights, end of period | **3,015,244** | **$6.31** | 2,913,244 | $6.27 |

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

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

| | **Three Months Ended March 31, 2016** |
|---|---|
| Risk-free interest rate | **0.58%** |
| Expected average life of Share Rights | **2.6 years** |
| Share Right term | **5.0 years** |
| Annual forfeiture rate | **0.00%** |
| Dividend yield | **0.31%** |
| Expected volatility | **56.43%** |
| Weighted average share price | **$3.10** |
| Weighted average fair value per Share Right | **$1.07** |

The following table summarizes information about the outstanding grants under the Company's SRIP as at March 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 - $3.64 | 2,123,500 | 3.35 | 2.99 | 1,163,500 | 3.55 |
| $3.65 - $6.68 | 725,744 | 5.71 | 3.62 | 186,744 | 5.05 |
| $6.69 - $7.41 | 7,400,000 | 7.00 | 3.86 | 990,000 | 7.25 |
| $7.42 - $10.98 | 1,734,000 | 10.29 | 3.14 | 675,000 | 10.02 |
| | 11,983,244 | $6.75 | 3.59 | 3,015,244 | $6.31 |

*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:

| | **Three Months Ended March 31, 2016** | | Year Ended December 31, 2015 | |
|---|---|---|---|---|
| | **Restricted Share Units** | **Average Price** | Restricted Share Units | Average Price |
| Balance, beginning of period | **4,892,227** | **$6.32** | 4,093,785 | $7.03 |
| Granted during the period | **327,805** | **3.41** | 3,103,652 | 5.80 |
| Reinvested during the period | **54,603** | **6.32** | 270,342 | 6.53 |
| Vested during the period | **(1,944,266)** | **5.52** | (2,457,217) | 6.85 |
| Forfeited during the period | **(51,844)** | **7.02** | (118,335) | 6.89 |
| Balance, end of period | **3,278,525** | **$6.50** | 4,892,227 | $6.32 |

The weighted average fair value of RSUs granted during the three months ended March 31, 2016, was $3.41 per RSU (2015 - $5.43), with a weighted average forfeiture rate of nil. The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant.

## 9. Dividends

The Company declared dividends to holders of common shares for the three months ended March 31, 2016, as follows:

| *$000's except per share amounts* | Dividend Record Date | Dividend Payment Date | Per Common Share | Total |
|---|---|---|---|---|
| January | Jan 29 | Feb 12 | $0.0180 | **3,971** |
| February | Feb 29 | Mar 15 | $0.0025 | **552** |
| March | Mar 31 | Apr 15 | $0.0025 | **556** |
| Total dividends declared during the period | | | $0.0230 | **5,079** |

Subsequent to March 31, 2016, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on May 13, 2016, for shareholders of record on April 29, 2016.

## 10. Commitments

The Company has commitments with payments due as follows:

| *$000's* | 2016 - 9 months | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| Office and facility rent | 5,131 | 4,792 | 3,383 | 2,022 | 735 | **16,063** |

*Payments denominated in foreign currencies have been translated using the appropriate March 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.

## 11. Financial Instrument and Risk Management

The classification of financial instruments remains consistent at March 31, 2016 with that as at December 31, 2015. The carrying values of cash, 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 March 31, 2016. The estimated fair value of the Senior Notes at March 31, 2016 is $284,865 (December 31, 2015 - $279,410) and 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:

| *$000's* | Carrying Value | Fair Value | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|
| As at March 31, 2016 | | | | | |
| Financial derivative asset | 4 | 4 | - | 4 | - |
| Financial derivative liability | (2,069) | (2,069) | - | (2,069) | - |
| Other assets | 4,953 | 4,953 | 4,953 | - | - |
| Total | 2,888 | 2,888 | 4,953 | (2,065) | - |
| 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 | - | - |
| Total | 7,698 | 7,698 | 5,338 | 2,360 | - |

## 12. Supplemental Information

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

| *$000's* | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Decrease (increase) in current assets | | |
| Accounts receivable | **34,994** | 27,608 |
| Inventory | **1,891** | 5,617 |
| Prepaid expenses and deposits | **7,254** | 15,901 |
| Increase (decrease) in current liabilities | | |
| Accounts payable and accrued liabilities | **(9,184)** | (27,978) |
| | **34,955** | 21,148 |
| *Relating to:* | | |
| Operating activities | **35,377** | 22,448 |
| Investing activities | **(422)** | **(1,300)** |

For the three months ended March 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.

### 13. Geographical Information

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

| | Revenue | |
|---|---|---|
| | Three Months Ended March 31, | |
| *$000's* | **2016** | 2015 |
| Canada | **47,304** | 77,078 |
| United States | **89,845** | 156,684 |
| Total | **137,149** | 233,762 |

| | Long-Term Assets [1] | |
|---|---|---|
| *$000's* | **March 31, 2016** | December 31, 2015 |
| Canada | **164,540** | 166,361 |
| United States | **404,920** | 437,504 |
| Total | **569,460** | 603,865 |

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

**STOCK EXCHANGE LISTINGS**
The Toronto Stock Exchange
Trading Symbol: CEU

OTCQX
Trading Symbol: CESDF

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[1]Member of the Audit Committee
[2]Member of the Compensation Committee
[3]Member of the Health, Safety and Environment Committee
[4]Member of the Corporate Governance and Nominating Committee

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Kenneth E. Zinger
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Chartered Professional Accountants, Calgary, AB

**BANKERS**
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**SOLICITORS**
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