ENSECO

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") FOR THE THREE MONTHS ENDED MARCH 31, 2015

The following MD&A, dated May 28, 2015, focuses on key statistics from the unaudited interim condensed consolidated financial statements of Enseco Energy Services Corp. ("Enseco", the "Corp." or the "Company") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the three months ended March 31, 2015 should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes therein for the three months ended March 31, 2015. Additional information relating to Enseco, including Enseco's annual audited financial statements, may be found on SEDAR at www.sedar.com.

Enseco's operations are conducted through its head office in Calgary, Alberta. In addition, the Company maintains facilities in Grande Prairie, Leduc, and Red Deer, Alberta. US operations are conducted through a wholly owned subsidiary, Enseco Energy Services USA Corp. with facilities in Minot, North Dakota, Casper, Wyoming, and Denver, Colorado.

Enseco is a corporation governed by the laws of the Province of Alberta with a financial year end of December 31. Enseco provides services primarily to the resource play activities of the North American oil and gas industry.

Results from Operations

Financial Quarter Ended (Unaudited) ($ thousands, except per share amounts)	Mar 15	Dec14	Sep14	Jun14	Mar 14
Revenue	$11,282	$20,899	$22,197	$ 12,750	$ 23,035
Gross Margin	2,098	4,050	4,426	(59)	4,726
Adjusted gross margin [1]	3,600	5,446	7,049	1,562	6,286
EBITDAS [1]	126	2,445	3,050	(2,214)	2,434
Net income (loss) before tax [1]	(879)	920	257	(4,454)	476
Per common share - basic	(0.04)	0.04	0.01	(0.20)	0.02
Per common share - diluted	(0.04)	0.04	0.01	(0.20)	0.02
Net income [1]	$ (525)	191	257	(4,454)	476
Per common share - basic	$ (0.02)	0.01	0.01	(0.20)	0.02
Per common share - diluted	$ (0.02)	0.01	0.01	(0.20)	0.02
Cash flow before changes in non-cash working capital [1]	635	2,072	3,374	(2,369)	2,489
Cash flow from (used in) operating activities	6,925	2,997	(2,794)	5,841	(5,243)

[1] *See definition within the Non-IFRS Measures section of this MD&A*

Takeaways for the three months ended March 31, 2015

- Canadian rig activity has dropped over 44% and US rig activity has dropped over 21% from same period last year. The Company has been reducing its operating costs as well as its SG&A, but the decline in the rig activity has caused a similar decline in the Company's revenue this quarter.
- Despite the decline in rig activity the US testing division increased their year over year revenue 39%, gross margin by 27% and EBITDA by 29%.

- Even with the decrease in revenue of 51%, the Company was able to increase adjusted gross margins by 5% versus same period last year due to cost reductions.
- SG&A expenses declined by $506 thousand versus the same period last year. This is expected to decline further in future quarters.

Outlook

Energy prices have shown modest increases beginning at the end of the first calendar quarter and are slowly showing improvement but the duration of the current downturn is still unknown and management has created and will continue to create review processes in a number of areas including pricing, service, and cost structure streamlining to achieve a sustainable, client service focused company that will operate efficiently, effectively and reliably in all market conditions. With cost reduction pressures from exploration and production companies being adopted and energy prices showing improvement, discussions on any potential activity level increases for the second half of 2015 have become more optimistic. The Company expects that Q2, traditionally a period of low activity in Canada, will see decreased activity compared to last year and compared with the already low activity of Q1. While discussions for Q3 and Q4 have become more optimistic that has not yet transformed into increased visibility into activity levels.

The programs Enseco began in January to reduce its costs including salary and personnel reductions, consolidation of its strategic vendor relationships, and evaluation of its process management have been implemented and are continually being reevaluated. A comprehensive wage roll-back was enacted, impacting all levels including both office and field personnel. Director fees were suspended, benefits and matching programs have been re-engineered or suspended and job sharing programs are in the process of being rolled-out. Facilities and services provided to us are under reassessment with cost reductions being implemented. In the first quarter, approximately $2.0 million of annual salaries were eliminated at a one-time severance cost of $250 thousand and $450 thousand of annual salary roll-back and benefit matching suspension were completed, for the remaining employees. Had the termination changes all occurred in early January and without the one-time severance costs, SG&A costs would have been reduced 25% from the same period last year.

Field personnel rate reductions ranging from 10-25% were also implemented at the beginning of the quarter and are reflected in the results. With low activity in Q1 and anticipated in Q2, these changes should have larger impacts in Q3 and Q4 if higher activity levels begin to return.

The Company had an operating loss of approximately $1.4 million and a working capital deficit at March 31, 2015 of approximately $12.8 million. The Company was not in compliance with its financial covenants under its credit agreements and anticipates continued violations, all of which are more fully described in this MD&A and Enseco's unaudited condensed consolidated interim financial statements.

Subsequent to the end of first quarter, Enseco entered into a Forbearance Agreement with its lender, a copy of which has been filed on SEDAR. The agreement is in effect until June 30, 2015. The agreement includes reductions in the Company's Demand Operating Facility and an interest rate increase of 1.5% on each facility. The Company is exploring various options to improve its financing terms and obtain reduced debt repayment terms through the downturn.

Enseco remains focused on realigning it cost structure to reflect the impact of the downturn, maintaining a key personnel base and improvements to be more efficient and cost effective when activity levels return.

Results of Operations

Canadian Directional Drilling

($ thousands)	Three months ended March 31, 2015	2014
Revenue	$ 2,053	$ 8,041
Gross margin	$ 100	$ 2,092
Gross margin %	5%	26%
Adjusted gross margin [1]	$ 683	$ 3,010
Adjusted gross margin %	33%	37%
EBITDAS [1]	$ (324)	$ 1,683
EBITDAS %	-16%	21%

[1] See definition within the Non-IFRS Measures section of this MD&A

Revenue decreased 74% for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This was the due to the combination of job days for the year, declining from 838 days last year to 282 this year or a decrease of 66% in activity and the average day rate revenue declining 24%.

Adjusted gross margin, which removes the impact of depreciation, share based compensation and gain or loss on disposal of assets from gross margin calculation, declined 77% leading to a 4% decrease in the adjusted gross margin percentage. With normal activity levels fixed costs such as maintaining our motor and MWD repair facilities are applied against larger revenues, with the decline in activity for this quarter these costs are absorbed by less revenue and reduced the overall adjusted gross margin percentage.

Selling, general and administrative ("SG&A") expenses declined, in amount, by 24% compared to the same quarter last year.

Enseco owned and operated an average of 21 (2014 – 33) MWD systems in Canada comprised of Electromagnetic ("EM") tools and Positive Mud Pulse ("PMP") tools with Gamma, along with related motors, tubular and other equipment.

The Company's strategy for Canadian Directional Drilling will remain focused on improving its current fleet of tools, including developing proprietary technology improvements for its MWD and motor fleet, and expanding its existing sales.

Canadian Production Testing

($ thousands)	Three months ended March 31, 2015	2014
Revenue	$ 2,986	$ 7,513
Gross margin	$ 19	$ 1,684
Gross margin %	1%	22%
Adjusted gross margin [1]	$ 831	$ 2,327
Adjusted gross margin %	28%	31%
EBITDAS [1]	$ 84	$ 1,507
EBITDAS %	3%	20%

[1] See definition within the Non-IFRS Measures section of this MD&A

Revenue decreased 60% for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Job days for the quarter decreased from 1,376 days in 2014 to 586 days in 2015, representing a decrease in activity of 57%.

Adjusted gross margins decreased from 31% to 28% compared to the same period last year. With decreases in revenue the fixed costs are covered by a smaller base resulting in a decrease in the gross margin percentage.

SG&A expenses declined, in amount, by 9% compared to the same quarter last year.

As at March 31, 2015 Enseco had 30 active testing units (2014 – 30) in Canada.

USA Production Testing

($ thousands)	Three months ended March 31, 2015		2014	
Revenue	$	4,709	$	3,396
Gross margin	$	1,872	$	432
Gross margin %		40%		13%
Adjusted gross margin [1]	$	1,925	$	471
Adjusted gross margin %		41%		14%
EBITDAS [1]	$	1,368	$	(9)
EBITDAS %		29%		0%

[1] *See definition within the Non-IFRS Measures section of this MD&A*

Comparative results for this US division are impacted by changes in foreign exchange rates. The foreign exchange rate fluctuated approximately 15% between comparative periods.

Revenue for the three months ended March 31, 2015 increased by 39% from the three months ended March 31, 2014. Job days for the quarter increased from 542 in 2014 to 559 in 2015 resulting in an activity based increase of 3%.

The adjusted gross margin increased from 14% for the three months ended March 31, 2014 to 41% for the three months ended March 31, 2015. With a large fixed cost component the increases in results in higher gross margins.

SG&A expenses increased, in amount, by 16% compared to the same period last year.

The division consists of 13 active production testing units (2014 – 13 units) as at March 31, 2015, with operations in Minot, North Dakota.

USA Directional Drilling

($ thousands)	Three months ended March 31, 2015		2014
Revenue	$	1,534	$	4,085
Gross margin	$	108	$	439
Gross margin %		7%		11%
Adjusted gross margin [1]	$	163	$	479
Adjusted gross margin %		11%		12%
EBITDAS [1]	$	(397)	$	(174)
EBITDAS %		-26%		-4%

[1] *See definition within the Non-IFRS Measures section of this MD&A*

Comparative results for this US division are impacted by changes in foreign exchange rates. The foreign exchange rate fluctuated approximately 15% between comparative periods.

Revenue for the three months ended March 31, 2015 declined by 62% from the three months ended March 31, 2014. Job days for the quarter decreased from 446 in 2014 to 314 in 2015 resulting in an activity based decrease of 30%. The increase in the percentage of the MWD only revenue versus full directional revenue in 2015 resulted a 47% decrease in the average day rate coupled with the activity decline produced the overall revenue decline.

Adjusted gross margins decreased from 12% to 11% compared to the same period last year. Much of the cost structure in the US Directional division is variable, so as revenue falls so do the direct costs.

SG&A expenses decreased, in amount, by 13% compared to the three months ended March 31, 2014.

The USA directional drilling division consisted of an average of 12 MWD systems (2014 – 12) as at March 31, 2015 with operations in Casper, Wyoming and a sales presence in Denver, Colorado.

Selling, General and Administrative

($ thousands)		Three months ended March 31, 2015		2014
General organizational costs	$	3,474	$	3,713
Bad debt expense	$	-	$	140
Share-based compensation	$	5	$	17
Depreciation and accretion	$	25	$	140
Selling, general and administrative	$	3,504	$	4,010
Percentage of revenue		31%		17%

SG&A expenses include the costs of operating the corporate head office, costs related to public reporting requirements, field office locations, bad debt allowances, settlement costs, and administrative staff both at head office and field locations. SG&A represents the majority of the Company's fixed costs with general organizational costs ("GOC") being the largest. For the three months ended March 31, 2015 SG&A, as a percentage of revenue, increased from 17% to 31% as compared to the three months ended March 31, 2014, due to the declining revenue, but declined $506 thousand in amount.

During the three months ended March 31, 2015, the Company reduced its SG&A head count by 30% which is expected to reduce SG&A by $500 thousand a quarter going forward. The Company incurred an additional one-time severance cost of $250 thousand in this quarter. While some of these cuts occurred in the first half of the quarter, the majority were enacted at the end of the quarter and therefore not fully reflected in the above results. If the reductions had occurred at the beginning of the period, SG&A expense would have been reduced, in the quarter, by an additional $260 thousand. Removing the severance costs and the cost that would have been removed if all expenses had been reduced in January, SG&A would have been $3 million for the quarter for a reduction of 25% compared to last year.

Also, the Company began a general wage rollback, a suspension of employee savings matching and a suspension of director fees in January that reduced SG&A costs, in the quarter, by $150 thousand for the employees remaining at March 31, 2015.

The Company is looking at all SG&A expenses to further reduce expenses for future periods.

Finance Costs

Finance costs decreased to $316 thousand from $346 thousand for the three months ended March 31, 2015 and the three months ended March 31, 2014 respectively. This decrease is attributable to both bank indebtedness and bank debt being at lower balances during the three months ended March 31, 2015 than the balances during the three months ended March 31, 2014.

Seasonality and Cyclicality

The Company's business is cyclical due to the nature of its customers' cash flows and capital expenditures. Customers' cash flows and capital expenditures are in turn affected by, among other things, oil and gas prices, access to capital, the prospects for oil and gas exploration and development in North America and economics of oil and gas exploration and production compared to the economics of international opportunities. Seasonality impacts the Company's operations. A significant portion of the Company's operations are carried on in the Western Canadian Sedimentary Basin (WCSB). The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Company's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of the winter freeze-up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Due to low energy prices, energy companies have reduced their capital spending programs in 2015. Some residual impacts from the 2014 capital spending programs had lead to January being stronger than was expected for the energy price levels but in February we saw the start of the effects of the lower commodity prices. The results of the early start of the slowdown is reflected as Canada rig activity dropped over 44% and US rig activity dropped over 21% from the same period last year. As a result the traditional cyclical nature that Enseco operates in has changed for the current year. A lack of visibility into activity levels for the remainder of the year is still present despite oil prices showing growth.

Liquidity and Capital Resources

Operating Activities

Cash flow from operating activities increased from negative $5,243 thousand to positive $6,925 thousand for the three months ended March 31, 2014 and 2015 respectively. The large reversal came almost entirely from the changes to the accounts receivables and the accounts payables.

The accounts receivable balance at March 31, 2014 was significantly larger than the accounts receivable balance at December 31, 2013 due to the large increase in revenue for the respective quarters resulting in cash flows from operating activities between the two periods to be large negative amount. The accounts receivable balance at March 31, 2015 was significantly less than the accounts receivable balance at December 31, 2014 due to the large decrease in revenue for the respective quarters resulting in cash flows from operating activities between the two periods to be a large positive amount.

The accounts payable balance at March 31, 2014 was larger than the accounts payable balance at December 31, 2013 due to the large increase in revenue for the respective quarters resulting in cash flows from operating activities between the two periods to be a positive amount and offsetting the large negative amount from the changes in accounts receivable. The accounts payable balance at March 31, 2015 was significantly less than the accounts payable balance at December 31, 2014 due to the large decrease in revenue for the respective quarters resulting in cash flows from operating activities between the two periods to be a negative amount and offsetting the large positive amount from the changes in accounts receivable.

Investing Activities

During the three months ended March 31, 2015, $261 thousand of equipment was purchased and $686 thousand of equipment was sold for a net decrease of $425 thousand. During the three months ended March 31, 2014 additions of $958 thousand were added and disposals were $5 thousand for net additions of $953 thousand.

Financing Activities

Bank Indebtedness and Loans and Borrowings

Subsequent to the end of first quarter, the Company entered into a Forbearance Agreement, with its lender, which included the breaches with its current ratio and debt service coverage ratio covenants for the three months ended March 31, 2015. The agreement is in effect until June 30, 2015. Changes to terms and interest rates are discussed below.

As at May 28, 2015, the Company has three active credit facilities

a) Demand Operating Facility

A $10.0 million demand revolving operating facility (March 31, 2014 - $15 million; March 31, 2015 - $15 million) subject to certain margin requirements, bearing interest of the bank's prime ("Prime") rate plus 3.50% per annum (March 31, 2014 – 2.00%).

As at March 31, 2015, the Company had a bank defined current ratio of 1.01 to 1.00, debt service coverage ratio of 0.66, the interest rate at prime plus 2.00% and the balance owing under this facility was $9.5 million (March 31, 2014 - $13.1 million).

The bank indebtedness balance of $6.5 million is reported net of cash on hand of $3.0 million.

b) Term Facility

A $8.55 million non-revolving term facility (March 31, 2014 - $12.4 million) repayable in quarterly installments of $950 thousand with interest paid monthly, beginning September 30, 2012, and initially maturing on March 27, 2017. The agreement is subject to renewal provisions which allow management and the bank to extend the arrangement for an additional one year period should both parties agree to amended terms. If management determines not to extend the facility, 25% of the outstanding principal balance will become due and payable one month prior to the maturity date with the remaining balance, including accrued and unpaid interest, will become due on the maturity date (or extended maturity date if applicable).

The facility bears interest at prime plus 3.65% per annum (March 31, 2014 – 2.15%; March 31, 2015 – 2.15%).

As at March 31, 2015, $8.55 million (March 31, 2014 - $12.4 million) was the unpaid balance and maximum available to draw for this facility. The maximum available for this facility will decrease as each quarterly payment is made.

c) Revolving Extendable Facility

A revolving extendable facility of $4.0 million (March 31, 2014 - $4.0 million), requiring interest only payments, on a monthly basis, on the outstanding principal amount, and is payable on demand. The agreement is subject to renewal provisions which allow management and the bank to extend the arrangement for an additional one year period should both parties agree to amended terms. If management determines not to extend the facility, 25% of the outstanding principal balance will become due and payable one month prior to the maturity date with the remaining balance, including accrued and unpaid interest, will become due on the maturity date (or extended maturity date if applicable).

The facility bears interest of the prime rate plus 3.65% per annum (March 31, 2014 – 2.15%; March 31, 2015 – 2.15%).

As at March 31, 2015, the balance owing under this facility was $4.0 million (March 31, 2014 - $4.0 million). The maximum available for this facility will decrease with every payment made with the option to redraw now rescinded.

The aggregate of the term facility and the revolving extendable facility (the "Loans and Borrowings") cannot exceed 50% of the lesser of the appraised value of the Company's equipment; and, the net book value of the Company's equipment less priority claims. As at March 31, 2015, the Company was in compliance as the term facility and revolving extendable facilities totaled to $12.6 million with 50% of the Company's equipment calculated as $16.8 million.

The committed credit facilities are secured by a general security agreement creating a first fixed charge over the Company's present and future assets, subject to permitted encumbrances.

Covenants

The debt covenants for the bank indebtedness and the Loans and Borrowings are calculated in accordance with the terms of the agreements as follows; Net debt to tangible net worth not to exceed 2.50:1:00; current ratio of at least 1.25:1.00; the term facility and revolving extendable facility cannot exceed 50% of the lesser of the appraised value of the Company's equipment; and, the net book value of the Company's equipment less priority claims; the demand revolving operating facility not to exceed 90% of insured accounts payable less than 90 days old; and a debt service coverage ratio of at least 1.25:1.00.

As at March 31, 2015, the Company was not in compliance with its debt service coverage ratio and current ratio covenants and received a forbearance letter from its lender on April 30, 2015. The notice provides a waiver of the breach of the debt service coverage and current ratio covenants until June 30, 2015. As a result, all borrowings under these facilities are presented as current. The Company anticipates it will continue to not be in compliance with its debt service coverage ratio and current ratio covenants for 2015.

Liquidity

		Three months ended March 31, 2015				
($ thousands)	Total	Contractual obligation	12 months	24 months	24+ months	Total
Bank indebtedness	$ 6,516	$ 6,851	$ 6,851	$ -	$ -	$ 6,851
Accounts payable and accrued liabilities	7,505	7,505	7,505	-	-	7,505
Capital lease obligations	1,516	1,680	668	502	510	1,680
Bank debt	12,550	13,886	4,348	4,152	5,386	13,886
Total obligations	$ 28,087	$ 29,922	$ 19,372	$ 4,654	$ 5,896	$ 29,922

The Company continues to focus its efforts to increase sales and gross margins, reduce costs, and maintain positive cash flow from operations to ensure it has sufficient cash flows to meet its obligations as they become due.

At March 31, 2015, the Company had a working capital deficiency totaling $12.8 million, consisting mostly of its bank debt. As at March 31, 2015, the Company had not met its current ratio and debt service coverage ratio covenants, and as a result, the bank has the right to demand payment of the debt facility. Although the Company was able to obtain forbearance on April 30, 2015 of the covenant breach, there is no assurance that the Company will be successful in preventing future covenant breaches or that the Company's lender will provide a waiver of those breaches past June 30, 2015. Management expects that the Company will be in violation of its quarterly debt service coverage covenant and its current assets to current liabilities ratio for all of 2015. On February 13, 2015, the Company was notified by its lender that administration of debt has been moved to the lender's special credit division. Should the lender demand repayment of the credit facility, the Company's ability to continue operations would depend entirely on its ability to obtain alternative financing to cover its operating and long-term debts including, but not limited to, debt from other lenders or the issuance of equity.

Related Party Transactions

The Company is related to two exploration and production oil and gas companies (2014 - two companies) by way of two directors who are also senior officers of companies to which Enseco provides directional drilling services. As at and for the three months ended March 31, 2015 and March 31, 2014, the Company had the following value of transactions ($000's) with these companies:

($ thousands)	March 31, 2015	March 31, 2014
Revenue	$ 952	$ 320
Trade Receivables	$ 91	$ 336

All related party transactions are in the normal course of operations and are valued at the fair market value of the services received or provided.

Summary of Quarterly Results

($ thousands, except per share amounts)	Three months ended March 31, 2015	2014
Revenue	$ 11,282	$ 23,035
Gross margin	$ 2,098	$ 4,726
Gross margin %	19%	21%
Adjusted gross margin [1]	$ 3,600	$ 6,286
Adjusted gross margin %	32%	27%
EBITDAS [1]	$ 126	$ 2,433
EBITDAS %	1%	11%
Net income (loss) before tax [1]	$ (879)	$ 476
Per common share - basic	$ (0.04)	$ 0.02
Per common share - diluted	$ (0.04)	$ 0.02
Net income (loss)	(525)	$ 476
Per common share - basic	$ (0.02)	$ 0.02
Per common share - diluted	$ (0.02)	$ 0.02
Cash flow before changes in non-cash working capital [1]	$ 635	$ 2,489
Cash flow from (used in) operating activities	$ 6,925	$ (5,243)

[1] *See definition within the Non-IFRS Measures section of this MD&A*

Historically, the first calendar quarter has been the strongest quarter for the Company due to the northern exposure that the Company has in its operations. The second calendar quarter has been the slowest quarter due to “breakup” (see “Seasonality and Cyclicality" above) with many of the areas that the Company operates in not accessible during this period when ground conditions do not permit the movement of heavy equipment. The third calendar quarter has been the third busiest quarter, as some of the issues associated with “breakup” are no longer affecting access to areas of operations. The fourth calendar quarter has been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing.

The decline in energy prices has lead to lower activity levels which has impacted the historical patterns of the quarters. For this year, the first calendar quarter is anticipated to be the third strongest quarter with activity levels beginning to reduce after the first month. The second quarter is expected to remain the slowest quarter due to “breakup” (see “Seasonality and Cyclicality" above) and continuation of reduced activity from the first quarter. The third calendar quarter should see a slow increase in activity levels with energy prices increasing to make this quarter the second strongest quarter of 2015. The strongest quarter of 2015 is expected to be the fourth quarter with a stabilization of energy prices and activity levels preparing for the first calendar quarter of 2016.

Significant Accounting Policies and Developments

Significant Accounting Policies

For a full description of the Company’s accounting policies, refer to the Company’s audited consolidated financial statements dated December 31, 2014 which are available on SEDAR.

Accounting Developments

The accounting policies applied by the Company in this audited consolidated financial report have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 4 of the consolidated financial statements as at and for the year ended December 31, 2014. The accounting policies have been applied consistently by the Company.

Financial Instruments

The Company's financial instruments as at March 31, 2015 include accounts payable, bank indebtedness, trade and other payables, and loans and borrowings. The fair value of accounts payable, bank indebtedness, trade and other payables, approximate their carrying amounts due to their short-terms to maturity. The Company's debt utilizes a floating rate and accordingly its fair market value approximates the carrying value.

Credit Risk

The Company is exposed to credit risk on its accounts payable as it grants credit to customers in the normal course of business. This credit risk is concentrated because all accounts payable are from corporate entities in the oil and gas industry; however the risk is mitigated to the extent possible by regular reviews of outstanding accounts payable, monitoring of the financial position of customers and termination of credit to customers with poor payment history. The Company has taken an allowance in the quarter to reduce the risk of possible bad debts.

During the three months ended March 31, 2015, the Company had two customers who accounted for approximately 43% of revenue (March 31, 2014 – three customers accounts for 32%).

Interest Rate Risk

The Company is exposed to fluctuations in interest rates on all of its bank debt, which bear interest at floating rates.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk by fluctuations in the fair values of financial instruments due to changes in foreign exchange rates. Due to the operations of the Company's subsidiary in the US, the Company has exposure to foreign currency exchange rates. Both the carrying values of the US dollar financial assets and liabilities and earnings are subject to foreign exchange risk.

Outstanding Shares

The number of Common Shares outstanding as at March 31, 2015 and March 31, 2014 was 22,407,809.

The number of Common Shares outstanding as at May 28, 2015 is 22,407,809.

The number of Options outstanding as at March 31, 2015 was 1,458,332 and May 28, 2015 is 994,998.

Non-IFRS Measures

EBITDAS means earnings before interest, taxes, depreciation and amortization, and stock-based compensation and is equal to earnings before income taxes plus interest on debt, other charges and interest expense, depreciation and amortization, stock-based compensation, unrealized foreign exchange loss, loss on sale of equipment and deferred tax expense/recovery. Cash flow before changes in non-cash working capital means cash flows provided before changes in non-cash working capital items. Adjusted gross margin is calculated as revenues less direct costs. EBITDAS, cash flows before changes in non-cash working capital, and adjusted gross margin are not recognized measures under IFRS. Management believes that in addition to net losses, EBITDAS, cash flows before changes in non-cash working capital, and adjusted gross margin are useful supplemental measures as they provide an indication of the results generated by the Company's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Company's primary business activities. Readers should be cautioned, however, EBITDAS, cash flows before changes in non-cash working capital, and adjusted gross margin should not be construed as an alternative to net losses determined in accordance with IFRS as an indicator of Enseco's performance. Enseco's method of calculating EBITDAS, cash flows before changes in non-cash working capital, and adjusted gross margin may differ from other organizations and, accordingly, EBITDAS, cash flows before changes in non-cash working capital, and adjusted gross margin may not be comparable to measures used by other organizations.

Reconciliation of non-IFRS measures to the Financial Statements:

EBITDAS	Three months ended March 31,	
($ thousands)	2015	2014
Net Income (loss)	$ (525)	$ 476
Add:		
Deferred and Current tax expense	(354)	-
Finance costs	316	346
Depreciation and accretion (included in SG&A)	25	140
Depreciation (included in cost of services)	1,574	1,532
Share-based compensation (included in SG&A)	5	17
Share-based compensation (included in cost of services)	(11)	7
(Gain)/loss on disposal of equipment (included in SG&A)	-	-
(Gain)/loss on disposal of equipment (included in cost of services)	(61)	21
Realized and unrealized foreign exchange (gain)/loss	(843)	(106)
EBITDAS	$ 126	$ 2,433

Adjusted gross margin	Three months ended March 31,	
($ thousands)	2015	2014
Gross margin	$ 2,098	$ 4,726
Add:		
Depreciation (included in cost of services)	1,574	1,532
Share-based compensation (included in cost of services)	(11)	7
(Gain)/loss on disposal of equipment (included in cost of services)	(61)	21
Adjusted gross margin	$ 3,600	$ 6,286

Cash flows before changes in non-cash working capital ($ thousands)	Three months ended March 31, 2015	2014
Income (loss)	$ (525)	$ 476
Add (deduct) items not affecting cash		
Deferred tax expense	(303)	-
Finance costs	316	346
Depreciation and accretion (included in SG&A)	25	140
Depreciation (included in cost of services)	1,574	1,532
Share-based compensation (included in SG&A)	5	17
Share-based compensation (included in cost of services)	(11)	7
(Gain)/loss on disposal of equipment (included in SG&A)	-	-
(Gain)/loss on disposal of equipment (included in cost of services)	(61)	21
Unrealized foreign exchange loss	(385)	(50)
Cash flows before changes in non-cash working capital	$ 635	$ 2,489

Forward-Looking Statements

Certain information and statements contained in this MD&A constitute forward-looking information, including, but not limited to: statements concerning Enseco's future business strategy, focus, marketing and other plans; general industry conditions; plans to continue to reduce costs; expectations regarding the future performance of the Company regarding financial results including future revenues, cash flow, gross margins, EBITDAS, efficiencies and cost reductions, future debt levels, other financial results and continued financial covenant breaches; statements as to future economic, industry and operating conditions, including commodity prices, industry activity levels, access to capital and capital expenditures, expectations about the Company’s ability to finance its current operations, capital expenditure and future growth and manage its current debt levels; expectations about the Company’s ability to obtain the continued cooperation of its lender; plans to refinance the Company’s debt and the terms thereof; and expectations regarding future accounting standards and elections. Although management of the Company believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. Readers should review the cautionary statement respecting forward-looking information that appears below. All of the forward looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement.

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "seek", "plan", "continue", "estimate", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", “expect”, “may”, “anticipate” or “will” and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, the Company’s ability to service its debt, fund operations and obtain the continued support its lender; fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws or changes in administrative practices on the part of regulatory authorities.

Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company has historically relied and expectations relating to the continued cooperation of the Company's lender and future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, opinions of third-party analysts respecting anticipated economic and operating conditions.

With respect to forward-looking statements contained in this MD&A, Enseco has made assumptions regarding commodity prices and royalty regimes, availability of skilled labor, timing and amount of capital expenditures, future foreign exchange rates, interest rates, the impact of increasing competition, conditions in general economic and financial markets, effects of regulation by governmental agencies, and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Enseco's future operations and such information may not be appropriate for other purposes. Enseco's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Enseco will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of in this MD&A and Enseco disclaims any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.