NOTE TO READER: THE ANNUAL REPORT OF THE ISSUER FILED ON MARCH 1, 2018 HAS BEEN REFILED TO INCLUDE INFORMATION OMITTED IN THE ISSUER'S ANNUAL MD&A AND REPLACES THE MARCH 1, 2018 FILING OF THE ANNUAL REPORT. THE INFORMATION CONTAINED IN THE MANAGEMENT DISCUSSION AND ANALYSIS UNDER THE HEADING "CORPORATE GOVERNANCE" HAS BEEN REVISED TO INCLUDE MANAGEMENT'S CERTIFICATION THAT THE COMPANY'S DISCLOSURE CONTROLS & PROCEDURES ("DC&P") AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR") WERE EVALUATED AND WERE EFFECTIVE AS AT DECEMBER 31, 2017. THIS SECTION ALSO INCLUDES EXPANDED DEFINITIONS OF DC&P AND ICFR TO MIRROR THOSE FOUND IN SECTION 1.1 OF *NATIONAL INSTRUMENT 52-109*.

REFILED 2017 ANNUAL REPORT

July 23, 2018

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 audited consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the years ended December 31, 2017 and 2016, and CES' 2017 Annual Information Form. This MD&A is dated March 1, 2018, 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 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; 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; expectations regarding increased headcount and cost inflation related to General and Administrative Costs; management's opinion of the impact of any potential litigation or disputes; 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; 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; expectations regarding the number of Treatment Points in Canada; 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 specialty chemical sales and expected growth in the consumable chemicals market; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels; commodity prices and 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 the impact of governmental carbon pricing schemes; 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, and StimWrx Acquisitions (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; expectations regarding the impact of the refinancing of CES's Senior Notes; 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 natural gas, natural gas liquids, and 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; ability to protect the Company's proprietary technologies; 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 and other tax filing matters; changes and proposed changes to U.S. policies including the potential for tax reform, and possible renegotiation of international trade agreements including NAFTA ; 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, 2017 and "Risks and Uncertainties" in this MD&A.

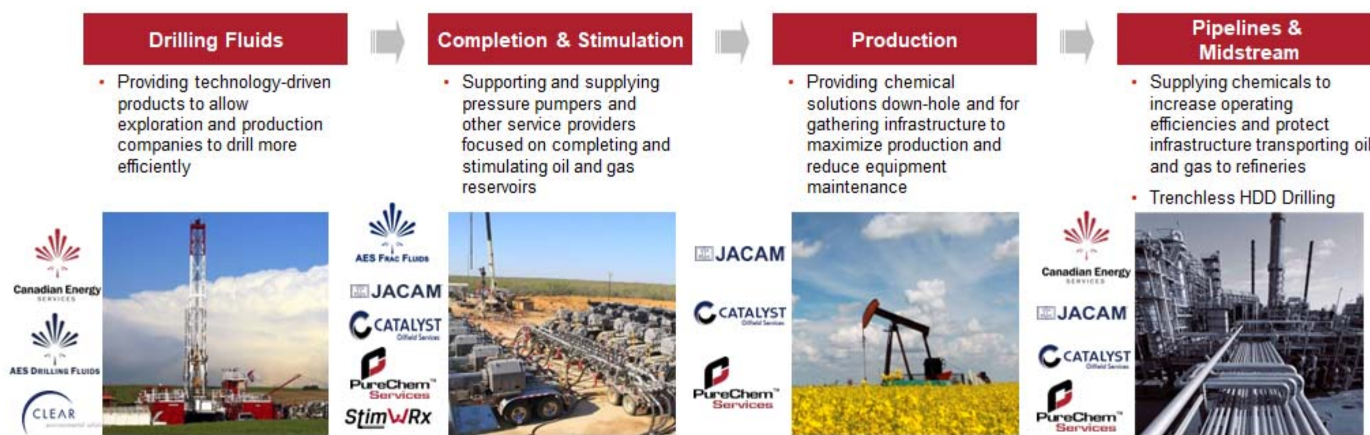
Without limiting the foregoing, the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

CORPORATE NAME CHANGE

Effective June 15, 2017, CES changed its corporate name from "Canadian Energy Services & Technology Corp." to "CES Energy Solutions Corp.". CES has significantly transformed its business since its initial public offering in March 2006, and has broadened its operational footprint across North America. The new company name avoids geographic reference, while incorporation of the CES acronym helps to maintain brand recognition.

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 remedial well stimulation techniques. The shift to horizontal drilling and multi-stage fracturing with long horizontal well completions has been responsible for significant growth in the drilling fluids and completion and stimulation chemicals markets. At the wellhead and pump-jack, CES' designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Key solutions include corrosion inhibitors, demulsifiers, H_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipeline and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H_2S.



Oilfield Knowledge + Vertically Integrated Technology + Manufacturing = Competitive Advantage

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"), StimWrx Energy Services Ltd. ("StimWrx"), Sialco Materials Ltd. ("Sialco"), and Clear Environmental Solutions ("Clear"). 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 StimWrx brand provides near matrix stimulation and remediation of oil, gas, and injection wells in Western Canada. 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 in the manufacture of oilfield chemicals, JACAM, Catalyst, and PureChem have expanding distribution channels into the oilfield.

Clear is a complimentary business division that supports the operations and augments 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.

CES continues to invest in research and development of new technologies and in the top-end scientific talent that can develop and refine these technologies. CES operates eight separate lab facilities across North America: one in Sterling, Kansas; two in Houston, Texas; two in Midland, Texas; and one in each of Carlyle, Saskatchewan; Delta, British Columbia; and Calgary, Alberta. In the US, CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas with additional low-temperature reacting and chemical blending capabilities just outside of Midland, Texas and chemical blending capabilities in Sonora, Texas. In Canada, CES has a 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. CES' current dividend level 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.

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. The non-GAAP measures are further defined for use throughout this MD&A as follows:

EBITDAC – is defined as net income (loss) 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	**2017**	2016	**2017**	2016
Net income (loss)	**2,681**	(3,973)	**36,241**	(64,550)
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**10,637**	9,495	**38,136**	35,779
Depreciation on property and equipment in G&A	**1,212**	1,236	**5,173**	4,970
Amortization on intangible assets in G&A	**5,179**	5,315	**21,722**	20,459
Interest expense, net of interest income	**7,848**	5,947	**26,294**	22,945
Amortization of capitalized deferred financing costs	**333**	321	**1,273**	1,271
Current income tax (recovery) expense	**(1,965)**	229	**(5,033)**	2,199
Deferred income tax (recovery) expense	**(489)**	140	**(5,156)**	3,295
Stock-based compensation	**5,316**	5,531	**22,855**	17,696
Unrealized foreign exchange (gain) loss	**(20)**	(53)	**48**	26
Unrealized derivative (gain) loss	**(800)**	(699)	**(55)**	2,928
Gain on disposal of assets	**(143)**	(358)	**(1,297)**	(1,570)
Other finance costs	**11,578**	-	**11,747**	-
Other (income) loss	**(1)**	3	**(85)**	178
EBITDAC	**41,366**	23,134	**151,863**	45,626

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.

Net Debt - represents total indebtedness, which includes the non-current portion of deferred acquisition consideration, the Senior Facility, the Senior Notes, and both current and non-current portions of finance lease obligations, less working capital surplus. Working capital surplus is calculated as current assets less current liabilities, excluding the current portion of finance lease obligations. Management believes that this metric is a key measure to assess liquidity of the Company and uses it to monitor its capital structure. Net Debt is calculated as follows:

	As at December 31,	
$000's	**2017**	2016
Long-term financial liabilities[(1)]	**414,384**	306,267
Current portion of finance lease obligations	**8,413**	7,224
Total indebtedness	**422,797**	313,491
Deduct working capital surplus:		
Current assets	**477,809**	319,479
Current liabilities[(2)]	**(118,921)**	(89,932)
Working capital surplus	**358,888**	229,547
Net Debt	**63,909**	83,944

Notes:
[1] *Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and finance lease obligations.*
[2] *Excludes current portion of finance lease obligations.*

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 DF 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 DF 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.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this MD&A is based upon independent industry publications and websites or was based on estimates derived from the same along with the knowledge of and experience of management in the markets in which the Corporation operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any

way whatsoever associated with, CES. Actual outcomes may vary materially from those forecasted in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes this data can be reasonably relied on, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Corporation has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources.

FINANCIAL HIGHLIGHTS

Summary Financial Results	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2017**	2016	% Change	**2017**	2016	% Change
Revenue	**278,831**	187,704	49%	**1,029,640**	567,726	81%
Gross margin	**67,606**	39,983	69%	**249,801**	111,781	123%
as a percentage of revenue	**24%**	21%		**24%**	20%	
Cash Gross Margin [(1)]	**78,100**	49,120	59%	**286,640**	145,990	96%
as a percentage of revenue	**28%**	26%		**28%**	26%	
Income (loss) before taxes	**227**	(3,604)	nmf	**26,052**	(59,056)	nmf
per share – basic	***0.00***	*(0.01)*	*nmf*	***0.10***	*(0.24)*	*nmf*
per share - diluted	***0.00***	*(0.01)*	*nmf*	***0.10***	*(0.24)*	*nmf*
Net income (loss)	**2,681**	(3,973)	nmf	**36,241**	(64,550)	nmf
per share – basic	***0.01***	*(0.02)*	*nmf*	***0.14***	*(0.27)*	*nmf*
per share - diluted	***0.01***	*(0.02)*	*nmf*	***0.13***	*(0.27)*	*nmf*
EBITDAC [(1)]	**41,366**	23,134	79%	**151,863**	45,626	233%
per share – basic	***0.15***	*0.09*	*67%*	***0.57***	*0.19*	*200%*
per share - diluted	***0.15***	*0.09*	*67%*	***0.56***	*0.19*	*195%*
Funds Flow From Operations [(1)]	**35,497**	16,973	109%	**130,164**	20,522	534%
per share – basic	***0.13***	*0.06*	*117%*	***0.49***	*0.08*	*513%*
per share - diluted	***0.13***	*0.06*	*117%*	***0.48***	*0.08*	*500%*
Dividends declared	**2,009**	1,965	2%	**7,982**	10,736	(26%)
per share	***0.0075***	*0.0075*	*0%*	***0.0300***	*0.0455*	*(34%)*

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

OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three and twelve months ended December 31, 2017, in comparison to the three and twelve months ended December 31, 2016 for CES are as follows:

- Q4 2017 revenue of $278.8 million is the highest revenue quarter in the Company's history exceeding the previous record quarter which was Q4 2014 with $278.7 million. In addition by generating annual revenue of over $1.0 billion for the first time, full year 2017 is also a record revenue year for CES as the $1,029.6 million in 2017 exceeds the previous record total in 2014 of $972.7 million.

- The financial results reported herein for the three months ended December 31, 2017 ("Q4 2017") and the year ended December 31, 2017 ("FY 2017") are reflective of the improvement in commodity prices that has led to a rebound in activity in the oil and gas industry. In contrast, although activity levels started to improve in the three months ended December 31, 2016 ("Q4 2016") from the lows experienced earlier in 2016, the results for the three and twelve months ended December 31, 2016, still presented challenging market conditions for the industry with both oil prices and activity levels bottoming in the first half of the year. In Q4 2017 and FY 2017, trough pricing levels continue to persist in CES' business lines, but the increase in activity has allowed CES to sell higher volumes of its products across its rationalized cost structure, and as a result, the financial results of CES in Q4 2017 and year-to-date are consistently improved in comparison to the results achieved in Q4 2016 and FY 2016.

- As noted above, CES generated record revenue in Q4 2017 of $278.8 million, compared to $187.7 million for Q4 2016, an increase of $91.1 million or 49%. FY 2017 was also a revenue record for the Company, with year-to-date revenue totalling $1,029.6 million as compared to $567.7 million for the year ended December 31, 2016, representing an increase of $461.9 million or 81%. EBITDAC for Q4 2017 was $41.4 million as compared to $23.1 million for Q4 2016, representing an increase of $18.3 million. Year-to-date, EBITDAC totalled $151.9 million as compared to $45.6 million for the year ended December

31, 2016, representing an increase of $106.3 million or 233%. Year-over-year, the Company's operating results benefited from increased activity levels due to the improved commodity price environment. Furthermore, 2017 includes a full run-rate of results attributable to both the Permian based Catalyst Acquisition, completed in August 2016, and the StimWrx acquisition in Canada, completed in Q1 2017, where in 2016 there were only five months of results attributable to Catalyst and none attributable to StimWrx. As detailed below, in Q4 2017 and year-to-date, all facets of the business in the US and Canada have made positive contributions to revenue and EBITDAC.

- Revenue generated in the US for Q4 2017 was $178.4 million compared to $120.9 million for Q4 2016, an increase of $57.5 million or 48%. Year-to-date, revenue totaled $652.0 million, compared to $371.8 million for the year ended December 31, 2016, representing an increase of $280.2 million or 75% on a year-over-year basis. This year over year increase is as a result of the improved market conditions in 2017 with significant activity improvement in the drilling fluids business, and increased US Treatment Points, particularly in the Permian Basin as a result of the Catalyst Acquisition, for which there were only five months of associated revenues or Treatment Points in 2016. Offsetting these gains for both comparative periods was the negative impact of the devaluation of the US Dollar ("USD") versus the Canadian Dollar ("CAD") in the current year on translation of the Company's US source revenues.

- Revenue generated in Canada for Q4 2017 was $100.4 million compared to $66.8 million for Q4 2016, an increase of $33.6 million or 50%. Year-to-date, revenue totaled $377.7 million, compared to $195.9 million for the year ended December 31, 2016, representing an increase of $181.8 million or 93% on a year-over-year basis. PureChem continued to gain market share in Canada in the production chemicals business as Canadian Treatment Points for Q4 2017 and year-to-date 2017 have increased 28% and 34%, respectively, from the comparative periods. Furthermore, the drilling fluids business increased its Operating Days by 12% and 67% over Q4 2016 and FY 2016, respectively, in line with the increase in industry rig counts for those periods. The increase in revenues in Canada for the year ended December 31, 2017, was a result of improved market conditions and the expansion of our business in an environment experiencing increased activity levels and customer spending, along with the contribution by StimWrx, which was acquired January 1, 2017, for which there were no associated revenues in the comparable periods.

- In Q4 2017, CES recorded Cash Gross Margin of $78.1 million or 28% of revenue, compared to Cash Gross Margin of $49.1 million or 26% of revenue generated in the same period last year. Year-to-date, CES recorded Cash Gross Margin of $286.6 million or 28% of revenue, compared to Cash Gross Margin of $146.0 million or 26% of revenue generated in the same period last year. Although activity levels have improved from 2016, the Company continues to sell its products and services at trough pricing levels. CES has been able to pass through many of its input cost increases but has yet to realize any meaningful price increases for its products. The improvement in Cash Gross Margin as a percentage of revenue year-to-date in 2017 is evidence of the operating leverage in our consumable chemicals business model, and is as a result of the positive effects of the cost reduction initiatives taken in 2016, combined with increased activity levels as CES has come off its fixed cost base. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.

- In Q4 2017, CES successfully reached an agreement with the Canada Revenue Agency ("CRA") regarding CRA's proposed reassessment relating to the tax consequences of the conversion from a partnership to a corporation on January 1, 2010 ("the Conversion"). The Company had previously accrued $7.0 million in current tax expense relating to this proposed reassessment, which was reversed in the third quarter of 2017. The settlement agreement reached with the CRA will not give rise to any cash outlay by CES for the current year or any prior taxation years and will have no impact on the current or deferred tax pool balances previously recorded by the Company. The net result is that the Company was able to fully realize on the operating losses that were acquired as part of the Conversion.

- CES recorded net income of $2.7 million in Q4 2017 as compared to a net loss of $4.0 million in the prior year. CES recorded net income per share of $0.01 ($0.01 diluted) in Q4 2017 versus a net loss per share of $0.02 ($0.02 diluted) in Q4 2016. For the year-to-date period, CES recorded net income of $36.2 million compared to a net loss of $64.6 million in 2016. CES recorded net income per share of $0.14 ($0.13) diluted) for the twelve months ended December 31, 2017 versus a net loss per share of $0.27 ($0.27 diluted) in 2016. The respective year-over-year increase in net income year-to-date resulted from the factors discussed above offset by higher interest and other finance costs primarily relating to the refinancing of the Company's 7.375% Senior Notes (as discussed below), depreciation and amortization charges and stock-based compensation expenses. The year-over-year increase in net income in Q4 2017, compared to Q4 2016, resulted from the operational factors discussed above offset by higher amortization, interest expense, and other finance costs.

- On July 14, 2017, the Company completed an amendment and two year extension of its syndicated senior facility ("the Senior Facility"). All of the amendments remain in effect until maturity of September 28, 2020, subject to certain terms and conditions, and may be extended by one year upon agreement of the lenders and the Company. The principal amendments to the Senior Facility include an increase in the available borrowing amount from $150.0 to $165.0 million, which addresses the needs of the Company's expanding US business, improved pricing on amounts drawn, and certain changes to the Company's debt covenants that are improvements for CES as detailed under the Liquidity and Capital Resources section of this MD&A.

- On October 20, 2017, the Company successfully completed the private placement of $300.0 million of 6.375% senior unsecured notes due October 21, 2024 (the "Senior Notes"). The Company used the net proceeds of approximately $293.0 million from the issuance of the Senior Notes, along with amounts available under the Senior Facility, to repay its existing 7.375% Senior Notes on November 18, 2017. The refinancing decreases CES' annual interest costs, and significantly bolsters the balance sheet as it extends its debt maturity profile, and provides additional financing flexibility. During Q4 2017, CES incurred certain one-time finance costs associated with the refinancing totaling $13.0 million, which is comprised of the $11.1 million applicable redemption premium on the 7.375% Senior Notes, and $1.9 million of additional interest expense through the 30 day double carry period on the Senior Notes and 7.375% Senior Notes. The total cash outlay to CES as a result of the refinancing, including approximately $7.0 million in offering expenses and commissions paid, was $20.0 million ("Senior Notes Refinancing Cash Costs"). Refer to the Liquidity and Capital Resources section of this MD&A for further discussion.

- As at December 31, 2017, CES had a net draw of $109.3 million on its Senior Facility (December 31, 2016 – net draw of nil). This increase is primarily a result of the increased activity levels in 2017 requiring CES to build working capital, and as noted above, the Senior Notes Refinancing Cash Costs incurred in Q4 2017. The maximum available draw on the Senior Facility at December 31, 2017, was $165.0 million, comprised of a Canadian facility of $125.0 million and a US facility of USD$40.0 million (December 31, 2016 - $121.4 million). At December 31, 2017, CES is in compliance with the terms and covenants of its Senior Facility. As at the date of this MD&A, the Company had a net draw of approximately $110.0 million on its Senior Facility.

- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $350.5 million as at December 31, 2017 (December 31, 2016 – $222.3 million), and Net Debt of $63.9 million as at December 31, 2017 (December 31, 2016 - $83.9 million), with the decrease in Net Debt being as a result of working capital build-up offsetting the increased draws on the Company's Senior Facility.

- During Q4 2017, CES declared monthly dividends totalling $0.0075 per share as compared to $0.0075 per share for the same period in 2016. During Q4 2017, the Company's Payout Ratio averaged 6% as compared to 13% in Q4 2016. Year-to-date, the Company's Payout Ratio averaged 7% compared to 70% in 2016. 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)	**2017**	2016	$ Change	% Change
Revenue	**278,831**	187,704	91,127	49%
Cost of sales	**211,225**	147,721	63,504	43%
Gross margin	**67,606**	39,983	27,623	69%
Gross margin percentage of revenue	**24%**	21%		
General and administrative expenses	**48,112**	37,804	10,308	27%
Finance costs	**19,268**	5,780	13,488	233%
Other income	**(1)**	3	(4)	nmf
Income (loss) income before taxes	**227**	(3,604)	3,831	nmf
Current income tax (recovery) expense	**(1,965)**	229	(2,194)	nmf
Deferred income tax (recovery) expense	**(489)**	140	(629)	nmf
Net income (loss)	**2,681**	(3,973)	6,654	nmf
Net income (loss) per share – basic	***0.01***	*(0.02)*	*0.03*	*nmf*
Net income (loss) per share – diluted	***0.01***	*(0.02)*	*0.03*	*nmf*
EBITDAC [1]	**41,366**	23,134	18,232	79%

Common Shares Outstanding	**2017**	2016	% Change
End of period	**267,935,090**	262,300,999	2%
Weighted average			
- basic	**267,591,866**	261,840,909	2%
- diluted	**273,782,857**	261,840,909	5%

	As at		
Financial Position ($000s)	**December 31, 2017**	December 31, 2016	% Change
Net working capital	**350,475**	222,323	58%
Total assets	**1,140,667**	978,959	17%
Long-term financial liabilities [2]	**414,384**	306,267	35%
Net Debt [1]	**63,909**	83,944	(24%)
Shareholders' equity	**593,198**	568,837	4%

Notes:
[1] Refer to the "Non-GAAP Measures" for further detail.
[2] Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and finance lease obligations.

($000s, except per share amounts)	Year Ended December 31, **2017**	2016	$ Change	% Change
Revenue	**1,029,640**	567,726	461,914	81%
Cost of sales	**779,839**	455,945	323,894	71%
Gross margin	**249,801**	111,781	138,020	123%
Gross margin percentage of revenue	**24%**	20%		
General and administrative expenses	**183,638**	143,651	39,987	28%
Finance costs	**40,196**	27,008	13,188	49%
Other (income) loss	**(85)**	178	(263)	nmf
Income (loss) before taxes	**26,052**	(59,056)	85,108	nmf
Current income tax (recovery) expense	**(5,033)**	2,199	(7,232)	nmf
Deferred income tax (recovery) expense	**(5,156)**	3,295	(8,451)	nmf
Net income (loss)	**36,241**	(64,550)	100,791	nmf
Net income (loss) per share – basic	***0.14***	*(0.27)*	*0.41*	*nmf*
Net income (loss) per share – diluted	***0.13***	*(0.27)*	*0.40*	*nmf*
EBITDAC [1]	**151,863**	45,626	106,237	233%

Common Shares Outstanding	**2017**	2016	% Change
End of period	**267,935,090**	262,300,999	2%
Weighted average			
- basic	**265,865,387**	243,171,601	9%
- diluted	**272,828,296**	243,171,601	12%

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

Revenue and Operating Activities
CES generated record quarterly revenue of $278.8 million during the three months ended December 31, 2017, compared to $187.7 million for the three months ended December 31, 2016, an increase of $91.1 million or 49%. Year-to-date was also a revenue record for CES as gross revenue totalled $1,029.6 million as compared to $567.7 million for the year ended December 31, 2016, representing an increase of $461.9 million or 81% 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	**2017**	2016	**2017**	2016
United States	**178,411**	120,900	**651,983**	371,816
Canada	**100,420**	66,804	**377,657**	195,910
	278,831	187,704	**1,029,640**	567,726

Revenue generated in the US for the three months ended December 31, 2017 increased by $57.5 million or 48% compared to the three months ended December 31, 2016 from $120.9 million to $178.4 million. For the year ended December 31, 2017, revenue in the US was $652.0 million compared to $371.8 million for the same period in 2016, representing an increase of $280.2 million or 75%. This year over year increase is as a result of the improved market conditions in 2017 with significant activity improvement in the drilling fluids business, and increased US Treatment Points, particularly in the Permian Basin as a result of the Catalyst Acquisition, for which there were only five months of associated revenues and Treatment Points in 2016. As noted below, US Operating Days in Q4 2017 increased by 60% over Q4 2016, while Treatment Points increased by 15%. For FY 2017, US Operating Days increased by 84%, while treatment points increased by 43%. The Company achieved US DF Market Share for its drilling fluids business of 11% for the three and twelve months ended December 31, 2017, respectively, consistent with 11% for the three and twelve months ended December 31, 2016. Offsetting these gains for both comparative periods was the negative impact of the devaluation of the USD versus the CAD in the current year on translation of the Company's US source revenues.

Revenue generated in Canada for the three months ended December 31, 2017 increased by $33.6 million or 50% compared to the three months ended December 31, 2016, from $66.8 million to $100.4 million. For the year ended December 31, 2017, revenue in Canada was $377.7 million, compared to $195.9 million in the same period in 2016, representing an increase of $181.8 million or 93%. PureChem continued to gain market share in Canada for production chemicals as Canadian Treatment Points for Q4 2017 and year-to-date 2017 have increased 28% and 34%, respectively, from the comparative periods. Furthermore, the drilling fluids business increased its operating days by 12% over Q4 2016 and 67% over FY 2016, which was in line with the increase in industry rig counts for each comparative period. The increase in revenues in Canada for the year ended December 31, 2017, was a result of improved market conditions and the expansion of our business as activity levels and customer spending increased, along with the contribution of StimWrx, which was acquired January 1, 2017, for which there were no associated revenues in the comparable periods. The Company achieved Canadian DF Market Share for its drilling fluids business of 39% for the three and twelve months ended December 31, 2017, respectively, as compared with 38% and 36% for the three and twelve months ended December 31, 2016. CES expects to maintain its leading drilling fluids market share but future Canadian DF Market Share will be dependent on our customers' risk appetite and future spending levels.

Included in revenue generated in Canada for the three and twelve months ended December, 2017, is $2.3 million and $10.8 million, respectively, (2016 – $2.9 million and $7.1 million, respectively) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business has evolved from being primarily levered to drilling activity to a vertically integrated environmental service provider. With a variety of services, revenue can fluctuate with exposure to large scale, short duration jobs as was apparent in Q4 2016. On an annual basis, the increase in revenue from 2016 to 2017 was due to the addition of new technology and service offerings around waste water management. 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, 2017, is as follows:

	Three Months Ended December 31,			Year Ended December 31,		
	2017	2016	% Change	**2017**	2016	% Change
Canadian industry rig count [1]	**200**	172	16%	**189**	120	58%
US industry rig count [2]	**903**	565	60%	**856**	489	75%

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,		
	2017	2016	% Change	**2017**	2016	% Change
Canada	**7,080**	6,295	12%	**27,010**	16,130	67%
US	**9,088**	5,687	60%	**34,424**	18,732	84%
Total Operating Days [1]	**16,168**	11,982	35%	**61,434**	34,862	76%

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

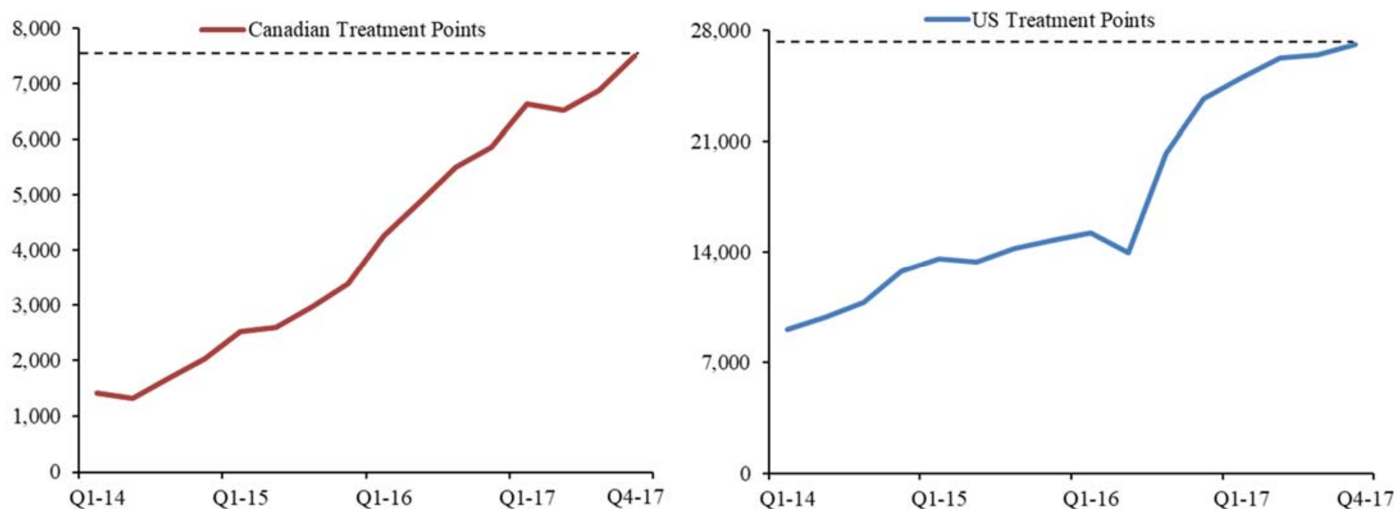
The following table summarizes estimated Treatment Points during the three and twelve months ended December 31, 2017 as compared to the same periods in 2016:

	Three Months Ended December 31,			Year Ended December 31,		
	2017	2016	% Change	**2017**	2016	% Change
Canada	**7,499**	5,856	28%	**6,886**	5,124	34%
US	**27,095**	23,641	15%	**26,178**	18,257	43%
Total Treatment Points [(1)]	**34,594**	29,497	17%	**33,064**	23,381	41%

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.

Quarterly Treatment Points



For the three and twelve months ended December 31, 2017, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	**2017**	2016
Top five customers as a % of total revenue	**26%**	26%	**28%**	22%
Top customer as a % of total revenue	**10%**	12%	**12%**	10%

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.

Gross margin and Cash Gross Margin for the three and twelve months ended December 31, 2017 and 2016 are as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2017**	2016	**2017**	2016
Gross margin	**67,606**	39,983	**249,801**	111,781
as a percentage of revenue	**24%**	21%	**24%**	20%
Add back (deduct):				
Depreciation included in cost of sales	**10,637**	9,495	**38,136**	35,779
(Gain) on disposal of assets included in cost of sales	**(143)**	(358)	**(1,297)**	(1,570)
Cash Gross Margin (1)	**78,100**	49,120	**286,640**	145,990
as a percentage of revenue	**28%**	26%	**28%**	26%

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

In Q4 2017, CES recorded Cash Gross Margin of $78.1 million or 28% of revenue, compared to Cash Gross Margin of $49.1 million or 26% of revenue generated in the same period last year. The improvement in Cash Gross Margin as a percentage of revenue for the twelve month period ended December 31, 2017 over the same period in 2016, from 26% to 28% is a result of the positive effects of cost reduction initiatives taken in early 2016 combined with increased activity levels as CES has come off its fixed cost base in the drilling fluids businesses. Although activity levels have largely improved throughout the industry, pricing pressure from customers persists and the Company continues to sell its products and services at trough pricing levels. With the exception of the pass-through of certain cost increases like labour and commodity inputs, CES has yet to benefit from any broad based price increases to its 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	**2017**	2016	**2017**	2016
General and administrative expenses	**48,112**	37,804	**183,638**	143,651
as a percentage of revenue	**17%**	20%	**18%**	25%
Deduct non-cash expenses included in general & administrative expenses:				
Stock-based compensation	**5,316**	5,531	**22,855**	17,696
Depreciation & amortization	**6,391**	6,551	**26,895**	25,429
Cash General and Administrative Costs (1)	**36,405**	25,722	**133,888**	100,526
as a percentage of revenue	**13%**	14%	**13%**	18%

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

Cash General and Administrative Costs as a percentage of revenue for both Q4 2017 and year-to-date have decreased from the comparable periods due to an increase in revenues, resulting in the fixed costs of managing the business being distributed over a larger revenue base. 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. As the industry rebounds, it is expected that Cash General and Administrative Costs will continue to rise as we add headcount and experience cost inflation. On an absolute basis, Cash General and Administrative Costs increased in Q4 2017 and year-to-date as compared to the same respective 2016 periods, as a result of the following: growth of the business resulting from increased industry activity and market share gains; increased variable compensation costs reflective of increased revenues across all major facets of the business; and the additions related to both the Permian based Catalyst Acquisition, completed in August

2016 and the StimWrx acquisition in Canada, completed in January 2017, where in 2016 there were only five months of Cash General and Administrative Costs attributable to Catalyst and none attributable to StimWrx. In addition, it should be noted that Cash General and Administrative Costs were negatively impacted in 2017 by an aggregate of $2.6 million in certain one-time costs relating to severance, additional bad debt allowances, insurance deductibles attributable to the fire at the organoclay plant, and other restructuring and legal costs. Offsetting these increases is the positive impact of the stronger CAD versus USD on the translation of US source Cash General and Administrative Costs when compared to the 2016 respective periods, particularly in the current quarter.

Sequentially quarter over quarter, the Company's Cash General and Administrative costs have remained consistent as a percentage of revenue at 13%.

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	**2017**	2016	**2017**	2016
Depreciation recorded in cost of sales:				
Depreciation expense on property and equipment	**10,637**	9,495	**38,136**	35,779
Depreciation and amortization recorded in G&A:				
Amortization expense on intangible assets	**5,179**	5,315	**21,722**	20,459
Depreciation expense on property and equipment	**1,212**	1,236	**5,173**	4,970
	6,391	6,551	**26,895**	25,429
Total depreciation and amortization expense	**17,028**	16,046	**65,031**	61,208

The year-to-date increase in depreciation and amortization expense compared to the comparable period in 2016 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 acquisition of Catalyst and StimWrx, for which there was only five months in 2016 for Catalyst, and none for StimWrx. Offsetting these increases is the positive impact of the stronger CAD versus USD on the translation of US source depreciation and amortization costs when compared to the 2016 respective periods, particularly in the current quarter.

Finance Costs
For the three and twelve months ended December 31, 2017 and 2016, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2017**	2016	**2017**	2016
Realized foreign exchange (gain) loss	**(174)**	87	**(910)**	1,746
Unrealized foreign exchange loss (gain)	**(20)**	(53)	**48**	26
Realized financial derivative loss (gain)	**503**	177	**1,799**	(1,908)
Unrealized financial derivative (gain) loss	**(800)**	(699)	**(55)**	2,928
Amortization of debt issue costs and premium	**333**	321	**1,273**	1,271
Interest on debt, net of interest income	**7,848**	5,947	**26,294**	22,945
Other finance costs	**11,578**	-	**11,747**	-
Finance costs	**19,268**	5,780	**40,196**	27,008

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2017 include a realized and unrealized net foreign exchange gain totalling $0.2 million and $0.9 million, respectively (2016 – net loss of $0.03 million and $1.8 million, respectively), primarily related to foreign exchange gains on the Company's USD denominated payables and cash balances held in Canada.

Derivative gains and losses
Finance costs for Q4 2017 include a realized and unrealized net derivative gain of $0.3 million relating to the Company's foreign currency derivative contracts as compared with a net derivative gain of $0.5 million in Q4 2016. Year-to-date, finance costs include a net derivative loss $1.7 million in 2017 as compared with a net derivative loss of $1.0 million in 2016. As of December 31, 2017, the Company had a financial derivative liability of net $0.5 million relating to its outstanding derivative contracts (December 31, 2016 – net asset of $0.02 million and liability of $0.6 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, 2017 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 2018	US$4,000	Deliverable Forward	Physical Purchase	$1.3023
February 2018	US$4,000	Deliverable Forward	Physical Purchase	$1.3016
March 2018	US$3,000	Deliverable Forward	Physical Purchase	$1.2961
Total	US$11,000			$1.3004

Interest expense
Interest on debt, net of interest income in the table above, consists of interest expense on finance lease obligations, the Senior Facility and the Senior Notes, and excludes any non-cash amortization of debt issue costs and premium on both the Senior Notes and the Senior Facility. Finance costs for the three and twelve months ended December 31, 2017 include interest on debt, net of interest income, of $7.8 million and $26.3 million, respectively (2016 –$5.9 million and $22.9 million, respectively). Year-over-year, interest expense has increased largely as a result of the increased net draw on the Senior Facility throughout 2017 to meet working capital demands as compared to 2016, thereby increasing interest incurred on outstanding borrowing. Furthermore, CES incurred an additional $1.9 million in interest expense relating to the 30 day double carry period on the Senior Notes and 7.375% Senior Notes in Q4 2017.

Total interest expense relating to the Company's Senior Notes, including the $1.9 million noted above, during the three and twelve months ended December 31, 2017, is $6.5 million and $22.5 million, respectively, as compared to $5.4 million and $21.4 million in the respective 2016 periods.
As further outlined in the Liquidity and Capital Resources section of this MD&A, in Q4 2017 the Company successfully refinanced the 7.375% Senior Notes with Senior Notes bearing interest at 6.375%, thereby reducing CES' fixed annual interest costs going forward.

Other finance costs
For the year ended December 31, 2017, the Company recorded $11.8 million in other finance costs relating to the applicable redemption premium, and unwind of deferred financing costs and unamortized debt premium on the 7.375% Senior Notes that were redeemed on November 18, 2017.

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, 2017 and 2016, income tax (recovery) expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2017**	2016	**2017**	2016
Current income tax (recovery) expense	**(1,965)**	229	**(5,033)**	2,199
Deferred income tax (recovery) expense	**(489)**	140	**(5,156)**	3,295
Total income tax (recovery) expense	**(2,454)**	369	**(10,189)**	5,494

In Q4 2017, CES successfully reached an agreement with the CRA regarding their proposed reassessment relating to the tax consequences of the conversion from a partnership to a corporation on January 1, 2010 ("the Conversion"). The Company had previously accrued $7.0 million in current tax expense relating to this proposed reassessment, which was reversed in the third quarter of 2017. The settlement agreement reached with the CRA will not give rise to any cash outlay by CES for the current year or any prior taxation years and will have no impact on the current or deferred tax pool balances previously recorded by the Company. The net result is that the Company was able to fully realize on the operating losses that were acquired as part of the Conversion.

During Q4 2017, US tax reform was enacted under the Tax Cuts and Jobs Act, which included a decrease in the US federal corporate income tax rate from 35% to 21%, effective January 1, 2018. Management has analyzed the impact of this US tax reform and has recognized the impact of it in CES' December 31, 2017 financial statements.

The year-over-year decrease in current income tax expense is primarily related the reversal of the accrual on the Conversion, partially offset by increased operating income in 2017. The year-over-year decrease in deferred income tax expense is primarily due to a reduction in the US federal tax rate, the recognition of additional US tax losses and 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.

Net Working Capital & Net Debt
At December 31, 2017, the Company had a net draw of $109.3 million on its Senior Facility. CES continued to maintain a strong statement of financial position or "balance sheet" as at December 31, 2017, with positive net working capital of $350.5 million (December 31, 2016 - $222.3 million). The increase in working capital from December 31, 2016 is primarily due to increased activity levels across all facets of the business and is comprised of the following: a $111.9 million increase in receivables, a $57.9 million increase in inventory, a $1.9 million increase in prepaid expenses, offset by a $13.4 million reduction in cash, a $31.0 million increase in accounts payable, and a $1.9 million decrease in income taxes payable.

At December 31, 2017, the Company had Net Debt of $63.9 million as compared to $83.9 million at December 31, 2016, with the decrease being as a result of working capital build-up offsetting the increased draws on the Company's Senior Facility.

Total Long-Term Assets
Year-over-year, total long-term assets of CES increased by $3.4 million to $662.9 million at December 31, 2017 from $659.5 million at December 31, 2016. The increase can be attributable to the long-term assets acquired through the StimWrx Acquisition, which includes $9.6 million in intangible assets and $18.1 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 since December 31, 2016.

Long-Term Financial Liabilities
CES had long-term debt totalling $402.4 million at December 31, 2017, compared to $298.8 million at December 31, 2016, an increase of $103.6 million. The increase in long-term debt is primarily as a result of the Company's increased borrowings on the Senior Facility during the period, due to the increased activity levels and the build-up of working capital to meet growing customer demands, along with the Senior Notes Refinancing Cash Costs incurred by CES in Q4 2017. Additional discussion relating to the Company's Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.

At December 31, 2017, long-term debt liabilities were comprised of the following balances:

	As at	
$000s	**December 31, 2017**	December 31, 2016
Senior Facility	**109,926**	-
Senior Notes	**300,000**	300,000
	409,926	300,000
Less net unamortized debt issue costs	**(7,505)**	(3,683)
Add net unamortized debt premium	**-**	2,453
Long-term debt	**402,421**	298,770

At December 31, 2017, the Company had finance lease liabilities of $19.9 million, of which $8.4 million pertained to the current portion of the obligation, representing a total increase of $5.1 million from December 31, 2016.

Future minimum lease payments outstanding under the Company's finance lease obligations as at December 31, 2017 are as follows:

$000s	
Less than 1 year	**7,307**
1-5 years	**13,756**
5+ years	**-**
Total lease payments	**21,063**
Amount representing implicit interest	**(1,207)**
Finance lease obligations	**19,856**
Less: current portion of finance lease obligations	**(8,413)**
Long-term finance lease obligations	**11,443**

During the three and twelve months ended December 31, 2017, the Company made long-term scheduled debt and lease repayments totalling $2.9 million and $9.6 million, respectively, on its finance leases.

Shareholders' Equity

Shareholders' equity increased by $24.4 million from $568.8 million at December 31, 2016 to $593.2 million at December 31, 2017. The increase in shareholders' equity is primarily attributable to the issuance of $12.8 million in shares issued as consideration in conjunction with the StimWrx Acquisition, net of share issuance costs, $36.2 million net income for the period, $22.9 million in contributed surplus related to stock-based compensation expense, and $19.5 million relating to the issuance of equity under the Company's stock-based compensation plans. The increase was offset by a $8.0 million of dividends declared by the Company during the period, $14.8 million reclassified from contributed surplus for stock-based compensation plans, and a $44.3 million loss in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries as CAD strengthened from December 31, 2016 to December 31, 2017.

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, 2017, remuneration of $11.7 million included $8.7 million of salaries and cash-based compensation and $3.0 million of stock-based compensation cost (December 31, 2016 – $2.1 million and $5.9 million, respectively).

During the year ended December 31, 2017, CES sold property and equipment with an aggregate net book value of $1.1 million to a former employee and a former director of the Company, who at the time of the transactions were employees of the Company, and to companies controlled by the respective former employee and former director, for proceeds of $0.6 million. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties.

QUARTERLY FINANCIAL SUMMARY

	Three Months Ended			
($000s, except per share amounts)	**Dec 31, 2017**	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017
Revenue	**278,831**	260,881	237,576	252,352
Gross margin	**67,606**	63,876	58,534	59,785
Net income (loss)	**2,681**	19,437	6,345	7,778
per share– basic	***0.01***	*0.07*	*0.02*	*0.03*
per share– diluted	***0.01***	*0.07*	*0.02*	*0.03*
EBITDAC[1]	**41,366**	39,073	35,317	36,107
per share– basic	***0.15***	*0.15*	*0.13*	*0.14*
per share– diluted	***0.15***	*0.14*	*0.13*	*0.13*
Funds Flow From Operations [1]	**35,497**	38,518	28,626	27,523
per share– basic	***0.13***	*0.14*	*0.11*	*0.10*
per share– diluted	***0.13***	*0.14*	*0.11*	*0.10*
Dividends declared	**2,009**	2,000	1,990	1,983
per share	***0.0075***	*0.0075*	*0.0075*	*0.0075*
Shares Outstanding				
End of period	**267,935,090**	267,582,964	265,614,138	264,825,562
Weighted average – basic	**267,591,866**	266,323,406	265,190,677	264,169,358
Weighted average – diluted	**273,782,857**	273,036,297	272,217,498	272,554,790

	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) income	(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[1]	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 [1]	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

Notes:
[1]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)	**2017**	% Change	2016	% Change	2015
Revenue	**1,029,640**	81%	567,726	(24%)	749,614
Gross margin	**249,801**	123%	111,781	(30%)	159,659
Gross margin percentage of revenue	**24%**		20%		21%
Income (loss) before taxes	**26,052**	nmf	(59,056)	(61%)	(152,223)
per share – basic	***0.10***	*nmf*	*(0.24)*	*(66%)*	*(0.70)*
per share - diluted	***0.10***	*nmf*	*(0.24)*	*(66%)*	*(0.70)*
Net income (loss)	**36,241**	nmf	(64,550)	(30%)	(92,276)
per share – basic	***0.14***	*nmf*	*(0.27)*	*(36%)*	*(0.42)*
per share - diluted	***0.13***	*nmf*	*(0.27)*	*(36%)*	*(0.42)*
EBITDAC [(1)]	**151,863**	233%	45,626	(51%)	93,700
per share – basic	***0.57***	*200%*	*0.19*	*(56%)*	*0.43*
per share - diluted	***0.56***	*195%*	*0.19*	*(56%)*	*0.43*
Funds Flow From Operations [(1)]	**130,164**	534%	20,522	(76%)	83,848
per share – basic	***0.49***	*513%*	*0.08*	*(79%)*	*0.38*
per share - diluted	***0.48***	*500%*	*0.08*	*(79%)*	*0.38*
Dividends declared	**7,982**	(26%)	10,736	(85%)	69,849
per share	***0.0300***	(34%)	*0.0455*	*(86%)*	*0.3205*

	As At December 31,				
Financial Position ($000's)	**2017**	% Change	2016	% Change	2015
Net working capital	**350,475**	58%	222,323	(3%)	230,222
Total assets	**1,140,667**	17%	978,959	5%	931,537
Long-term financial liabilities [(2)]	**414,384**	35%	306,267	(1%)	309,900
Net Debt [(1)]	**63,909**	(24%)	83,944	5%	79,678
Shareholders' equity	**593,198**	4%	568,837	5%	540,037

Notes:

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

[2] *Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and finance lease obligations.*

LIQUIDITY AND CAPITAL RESOURCES

CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $350.5 million as at December 31, 2017 (December 31, 2016 – $222.3 million). At December 31, 2017, the Company had Net Debt of $63.9 million, a decrease from $83.9 million at December 31, 2016. Net Debt is calculated as follows:

	As at December 31,	
$000's	**2017**	2016
Long-term financial liabilities[(1)]	**414,384**	306,267
Current portion of finance lease obligations	**8,413**	7,224
Total indebtedness	**422,797**	313,491
Deduct working capital surplus:		
Current assets	**477,809**	319,479
Current liabilities[(2)]	**(118,921)**	(89,932)
Working capital surplus	**358,888**	229,547
Net Debt[(3)]	**63,909**	83,944

Notes:

[1] *Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and finance lease obligations.*
[2] *Excludes current portion of finance lease obligations.*
[3] *Refer to the "Non-GAAP Measures" for further detail.*

Although total indebtedness has increased throughout 2017, primarily as a result of increased borrowings on the Senior Facility due to increasing activity levels and resulting build-up of working capital to meet growing customer demands, along with the Senior Notes Refinancing Cash Costs incurred in Q4 2017, this increase is offset by the growth in working capital in the year.

Senior Facility

On July 14, 2017, the Company completed an amendment and two year extension of its syndicated senior facility. All of the amendments took effect July 14, 2017 and remain in effect until maturity of September 28, 2020, subject to certain terms and conditions, and may be extended by one year upon agreement of the lenders and the Company. The principal amendments to the Senior Facility include an increase in the available borrowing amount from $150.0 to $165.0 million which is driven by an increase in the U.S. Operating Facility to address the needs of the Company's expanding US business, certain changes to the Company's debt covenants as outlined below, and improved pricing on amounts drawn. Other terms and conditions from the amendment remain consistent with those of the previous senior facility.

The Senior Facility is comprised of a Canadian facility of $125.0 million and a US facility of USD$40.0 million. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.45% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

Under the Senior Facility, CES is subject to the following financial covenants:

- The ratio of Net Senior Debt to trailing EBITDA must not exceed 2.50:1.00 (formerly 2.25:1.00) calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00 (formerly 2.00:1.00), calculated on a rolling four-quarter basis.

The previously restrictive covenant of Total Net Funded Debt to EBITDA has been permanently eliminated.

Additionally, at the option of the Company and subject to certain conditions, the Minimum EBITDA to Interest Expense threshold may be reduced to 1.50 for a period not in excess of three consecutive quarters, returning to the requisite 2.50 in the fourth quarter thereafter. This optional interest coverage step-down may only be utilized once prior to September 28, 2020.

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

- Net Senior Debt is defined as Total Net Funded Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- 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.
- 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.

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

As at December 31, 2017, CES was in compliance with the terms and covenants of its Senior Facility, calculated as follows:

	As at	
$000s	**December 31, 2017**	December 31, 2016
Net Senior Funded Debt	**130,376**	4,138
EBITDA for the four quarters ended	**152,414**	53,969
Ratio	**0.855**	0.077
Maximum	**2.500**	2.250
EBITDA for the four quarters ended	**152,414**	53,969
Interest Expense for the four quarters ended	**26,366**	23,189
Ratio	**5.781**	2.327
Minimum	**2.500**	1.500

As of December 31, 2017, the maximum available draw on the amended Senior Facility was $165.0 million (December 31, 2016 - $121,430), and the Company had a net draw of $109.3 million (December 31, 2016 – $nil), with capitalized transaction costs of $0.7 million (December 31, 2016 – $0.6 million).

Refinancing of Senior Notes

As at December 31, 2016, the Company had $300.0 million of outstanding principal on unsecured 7.375% senior notes due April 17, 2020 (the "7.375% Senior Notes"). The 7.375% Senior Notes incurred interest at a rate of 7.375% per annum and interest was payable semi-annually on April 17th and October 17th. On October 20, 2017, the Company successfully completed the private placement of $300.0 million of 6.375% senior unsecured notes due October 21, 2024 (the "Senior Notes"), for net proceeds after offering expenses and commission of approximately of $293.0 million. The Company used the net proceeds from the issuance of the Senior Notes, along with amounts available under the Senior Facility, to repay the 7.375% Senior Notes.

The refinancing decreases CES' annual interest costs, extends its debt maturity profile, and provides additional financing flexibility. During Q4 2017, CES incurred certain one-time finance costs associated with the refinancing totaling $13.5 million, which is comprised of the $11.1 million applicable redemption premium on the 7.375% Senior Notes, $1.9 million of additional interest expense through the 30 day double carry period on the Senior Notes and 7.375% Senior Notes, and $0.5 million of non-cash unwind of previously capitalized costs associated with the 7.375% Senior Notes. As such, the total cash outlay to CES as a result of the refinancing, including approximately $7.0 million in offering expenses and commissions paid, was $20.0 million.

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 October 21, 2020. Interest is payable on the Senior Notes semi-annually on April 21 and October 21. 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.

As at December 31, 2017, the Company was in compliance with the terms and covenants of its lending agreements.

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 5.04%, and have termination dates ranging from January 2018 through February 2022. At December 31, 2017, outstanding vehicle and equipment finance lease obligations totalled $19.9 million as compared to $14.7 million at December 31, 2016.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2017:

	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	112,718	-	-	-	-	**112,718**
Dividends payable [2]	670	-	-	-	-	**670**
Income taxes payable	-	471	-	-	-	**471**
Deferred acquisition consideration	4,550	-	370	150	-	**5,070**
Senior Notes [4]	-	-	-	-	300,000	**300,000**
Interest on Senior Notes	-	19,125	19,125	57,375	38,250	**133,875**
Finance lease obligations at floating interest rates [3]	1,321	7,092	7,639	3,804	-	**19,856**
Office and facility rent, and other	2,055	5,302	4,149	5,377	2,737	**19,620**
	121,314	31,990	31,283	66,706	340,987	**592,280**

Notes:
[1] *Payments denominated in foreign currencies have been translated using the appropriate December 31, 2017 exchange rate.*
[2] *Dividends declared as of December 31, 2017.*
[3] *Finance lease obligations reflect principal payments and excludes any associated interest portion.*
[4] *The Senior Notes are due on October 21, 2024.*

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, 2017, cash flow from operating activities was an inflow of $25.6 million compared to an inflow of $2.4 million during the three months ended December 31, 2016, with the decrease being primarily as a result of the change in non-cash working capital, and increased operating income resulting from activity growth. 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, 2017, Funds Flow From Operations was $35.5 million, compared to $17.0 million for the three months ended December 31, 2016. The increase in Funds Flow from Operations from Q4 2016 to Q4 2017 is largely as a result of the increase in activity in the quarter and resulting build-up of working capital, impacting operating cash flows during the fourth quarter.

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2017**	2016	**2017**	2016
Cash provided by operating activities	**25,567**	2,414	**(23,291)**	57,461
Adjust for:				
Change in non-cash operating working capital	**9,930**	14,559	**153,455**	(36,939)
Funds Flow From Operations [(1)]	**35,497**	16,973	**130,164**	20,522

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

Cash Flows from Investing Activities
For the three months ended December 31, 2017, net cash outflows from investing activities totalled $21.2 million, an increase from the $10.3 million outflow from investing activities during the three months ended December 31, 2016, primarily as a result of increased capital expenditures on property and equipment of $12.9 million.

For the three months ended December 31, 2017, $21.3 million was spent on property and equipment (net of $3.9 million in vehicle finance leases). During the quarter, CES had $16.0 million of additions related to Expansion Capital including asset and vehicle financing. Notable expansion additions during the quarter ended December 31, 2017 include: $5.4 million for warehouse and facilities, $1.6 million for machinery and field equipment, $2.0 million for vehicles, $3.0 million in trucks and trailers, $1.1 million for tanks, $2.5 million for processing equipment, and $0.4 million for other expansion additions.

Expansion Capital expenditures in Q4 2017 were primarily related to the continued expansion of the JACAM, Catalyst, and PureChem facilities.

For the three months ended December 31, 2017, CES had $4.5 million of additions related to Maintenance Capital including asset and vehicle financing. Notable maintenance additions during the quarter ended December 31, 2017 include: $2.8 million for vehicles, $0.7 million for trucks and trailers, and $1.0 million for other maintenance additions. The increase in maintenance capital in Q4 2017 and year-to-date, over comparable periods in prior year, is primarily due to timing for the replacement of vehicles, in accordance with the Company's fleet policies.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2017**	2016	**2017**	2016
Expansion Capital [(1)]	**15,969**	10,214	**52,844**	36,694
Maintenance Capital [(1)]	**4,510**	1,998	**19,055**	5,108
Other capital expenditures [(2)]	**2,486**	-	**5,294**	-
Total investment in property and equipment	**22,965**	12,212	**77,193**	41,802
Asset financing and leases	**(3,937)**	(3,650)	**(15,338)**	(7,581)
Capital expenditures	**19,028**	8,562	**61,855**	34,221
Change in non-cash investing working capital	**2,279**	(176)	**239**	623
Cash used for investment in property and equipment	**21,307**	8,386	**62,094**	34,844

Notes:
[1] Refer to the "Operational Definitions" for further detail.
[2] Other capital expenditures include amounts incurred for the reconstruction of the organoclay plant, for which all costs, except for deductibles totalling USD$0.3 million, are fully insured.

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 2018, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately $65 million, of which an estimated $15 million will be

maintenance capital additions, and an estimated $50 million will be for expansion capital additions.

Cash Flows from Financing Activities
For the three months ended December 31, 2017, cash flows from financing activities totalled a cash outflow of $4.4 million compared to a cash outflow of $2.0 million during the comparative prior year period. This year-over-year change is essentially flat given that the increased draws on the Senior Facility are offset by the cash outflows relating to the Senior Notes refinancing.

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	**2017**	2016	**2017**	2016
Cash provided by operating activities	**25,567**	2,414	**(23,291)**	57,461
Adjust for:				
Change in non-cash operating working capital	**9,930**	14,559	**153,455**	(36,939)
Funds Flow From Operations [(1)]	**35,497**	16,973	**130,164**	20,522
less: Maintenance Capital [(2)]	**(4,510)**	(1,998)	**(19,055)**	(5,108)
Distributable Earnings [(1)]	**30,987**	14,975	**111,109**	15,414
Dividends declared	**2,009**	1,965	**7,982**	10,736
Payout Ratio [(1)]	**6%**	13%	**7%**	70%

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

Distributable Earnings were $31.0 million for the three months ended December 31, 2017, compared with $15.0 million for the same period in 2016. During the three months ended December 31, 2017, CES declared monthly dividends totalling $0.0075 per share for the quarter. During the fourth quarter of 2017, the Payout Ratio was 6% as compared to 13% for the same quarter of 2016.

Dividend Policy
The Company declared dividends to holders of common shares for the year ended December 31, 2017, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.0025	**660**
February	Feb 28	Mar 15	$0.0025	**661**
March	Mar 31	Apr 13	$0.0025	**662**
April	Apr 28	May 15	$0.0025	**662**
May	May 31	Jun 15	$0.0025	**664**
June	Jun 30	Jul 14	$0.0025	**664**
July	Jul 31	Aug 15	$0.0025	**664**
August	Aug 31	Sep 15	$0.0025	**667**
September	Sep 29	Oct 13	$0.0025	**669**
October	Oct 31	Nov 15	$0.0025	**669**
November	Nov 30	Dec 15	$0.0025	**670**
December	Dec 29	Jan 15	$0.0025	**670**
Total dividends declared during the year			$0.0300	**7,982**

Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary 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. At this time, CES intends to continue to pay cash dividends to shareholders, but these dividends are not guaranteed. In addition, future expansion, investments, acquisitions, or future share-buy back programs may be funded internally by allocating 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 deploys cash flow to finance these activities, the amount of cash dividends to shareholders may be affected. 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, 2017, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share paid on February 15, 2018 and March 15, 2018, for shareholders of record on January 31, 2018 and February 28, 2018, respectively. CES will continue to be protective of its balance sheet and provide liquidity to fund potential growth initiatives by being prudent with its cash dividend going forward, particularly if the volatility in the oil price environment continues.

Shareholders' Equity
As of December 31, 2017, CES had a total of 267,935,090 common shares outstanding. As of the date of this MD&A, CES had a total of 268,186,629 common shares outstanding.

Stock-based Compensation
As at December 31, 2017, a total of 26,793,509 common shares were reserved for issuance under the Company's Restricted Share Unit Plan, which has a sub-limit of 5% of common shares outstanding, Share Rights Incentive Plan, and Stock Settled Director Fee Program, of which 7,211,616 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At December 31, 2017, a total of 14,875,400 Share Rights were outstanding (December 31, 2016 – 14,045,400) at a weighted average exercise price of $6.38 (assuming all SRIP's are exercised at their respective original exercise price) of which 7,167,332 were exercisable. As of the date of this MD&A, an aggregate 14,527,645 Share Rights remaining outstanding, of which 6,913,377 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At December 31, 2017, a total of 4,706,493 Restricted Share Units were outstanding (December 31, 2016 – 4,858,585) at a weighted average issuance price of $5.98, none of which have vested. As of the date of this MD&A, an aggregate of 4,862,975 Restricted Share Units remain outstanding.

Commitments
At December 31, 2017, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000s	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Office and facility rent, and other	7,356	4,149	3,011	1,876	490	**16,882**

Payments denominated in foreign currencies have been translated using the appropriate December 31, 2017 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.

Other Provisions & Contingencies
The determination of other provisions and contingent liabilities is a complex process that involves judgments about the outcomes of future events, estimates of timing and amount of future expenditures, the interpretation of laws and regulations, and discount

rates. The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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". IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. CES will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed its review of IFRS 15 and has concluded that the adoption of this standard will not have a material impact on CES' net income or financial position. However, the new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 15.

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. CES will retrospectively adopt IFRS 9 on January 1, 2018. The Company has completed its review of IFRS 9, and does not expect that the adoption of the standard will result in any changes to the Company's existing classification or carrying values of financial instruments. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets will not result in any material changes to the valuation of CES' financial assets. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 9.

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

Disclosure controls and procedures ("DC&P") means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by CES in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by CES in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the CES's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2017, 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 at December 31, 2017, the disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Management of CES is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), which is a process designed by, or under the supervision of CES's certifying officers, and effected by CES's board of directors, management

and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the CES's GAAP and includes those policies and procedures that (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of CES; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the CES's GAAP, and that receipts and expenditures of CES are being made only in accordance with authorizations of management and directors of CES; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the CES's assets that could have a material effect on the annual financial statements or interim financial statements.

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, 2017. Based on their assessment, Management determined that ICFR were effective as at December 31, 2017.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

While the President and Chief Executive Officer and Chief Financial Officer believe that CES' 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' 2017 Annual Report, CES' Annual Information Form dated March 1, 2018 in respect of the year ended December 31, 2017, and CES' Information Circular in respect to the June 15, 2017 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 have improved since Q2 2016 but prices continue to see volatility in the face of both production and supply issues, geopolitical forces, and other macro-economic forces. The forward WTI curves for 2018 and 2019 are trading below USD$62/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, 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, US pricing hubs have quoted spot prices trading around USD$2.50 - $2.75 per MMBtu, and the futures curve for Nymex Henry Hub is trading below or at USD$2.75 per MMBtu for 2018 and 2019. Canadian hub spot prices have been even more challenged with AECO trading below $1.00 per MMBtu, and the futures curve for AECO being more constructive but also trading below $2.75 per MMBtu for 2018 and 2019.

The volatility in the financial markets 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. Despite CES' successful re-financing of its $300.0 million Senior Notes in October 2017, in general since the fall of 2014 there has been a retreat in the energy capital 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 Senior Facility to fund working capital and other growth initiatives. As noted in this MD&A, CES has successfully renewed and extended its Senior Facility but 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 Senior Facility is critical to the effective execution of CES' business plan. At December 31, 2017, 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. As the industry recovers from the trough activity levels of 2016, the demand for skilled employees has been increasing and the supply of top quality, experienced talent has been limited. 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 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.

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 and at the federal level, the Canadian government has also indicated that it plans to pursue a carbon pricing scheme that will backstop any applicable provincial carbon pricing framework. As an oilfield service company, CES is not a large-scale emitter of greenhouse gasses and does not anticipate the impact of these regulations to be material to its operations. However, the carbon levy may have a material impact on oil and gas producers, which could result in a material adverse effect on demand for CES' products and services. In addition, 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, including proposed US tax reform, 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.

Reference should be made to CES' Annual Information Form dated March 1, 2018 for the year ended December 31, 2017, 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 few years were extremely challenging as CES successfully navigated through the protracted industry downturn. Going forward, CES is optimistic about its prospects for 2018 and beyond. CES' strong 2017 financial results reflect its effective execution in a dynamic environment and CES' strategy has positioned it to take advantage of the opportunities ahead. As industry activity levels have rebounded, CES has also gained market share in all of its segments by demonstrating to customers the benefits of CES' technologies, service, and attention to problem solving. Although CES has yet to realize any meaningful price increases in the recovery, its strong financial performance is evidence of the operating leverage in its vertically integrated consumable chemicals business model.

CES believes that over time it can continue to grow its share of the oilfield consumable chemical markets in which it competes. After accounting for the additional challenges facing our Canadian customers, CES sees the US market and in particular 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 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.

CES' balance sheet is well positioned to capitalize on the improving oilfield activity. In October 2017, CES successfully re-financed and reduced its coupon on its $300.0 million Senior Notes by issuing new 6.375% Senior Notes which have an extended maturity into October 2024. In 2018, it is expected that EBITDAC will materially exceed the sum of cash expenditures on interest, taxes, 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 and increasing intensity.

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.cesenergysolutions.com
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Audited Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

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 the consolidated financial 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 1, 2018

"Craig F. Nieboer"
Craig F. Nieboer
Chief Financial Officer
March 1, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CES Energy Solutions Corp.:

We have audited the accompanying consolidated financial statements of CES Energy Solutions Corp. which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of net income (loss) and comprehensive loss, 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 CES Energy Solutions Corp. as at December 31, 2017 and December 31, 2016 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 1, 2018
Calgary, Canada

CES Energy Solutions Corp.

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

	As at	
	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash	**-**	13,390
Accounts receivable	**285,976**	174,082
Financial derivative asset (note 20)	**-**	20
Income taxes receivable (note 14)	**1,601**	1,605
Inventory (note 5)	**177,558**	119,636
Prepaid expenses and deposits	**12,674**	10,746
	477,809	319,479
Property and equipment (note 6)	**283,985**	276,523
Intangible assets (note 7)	**79,449**	90,734
Deferred income tax asset (note 14)	**13,437**	11,473
Other assets (note 8)	**7,521**	6,245
Goodwill (note 7)	**278,466**	274,505
	1,140,667	978,959
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**112,718**	81,701
Financial derivative liability (note 20)	**512**	588
Dividends payable (note 18)	**670**	656
Income taxes payable (note 14)	**471**	2,372
Current portion of deferred acquisition consideration (note 4)	**4,550**	4,615
Current portion of finance lease obligations (note 10)	**8,413**	7,224
	127,334	97,156
Deferred acquisition consideration (note 4)	**520**	-
Long-term debt (note 9)	**402,421**	298,770
Finance lease obligations (note 10)	**11,443**	7,497
Deferred income tax liability (note 14)	**5,751**	6,699
	547,469	410,122
Commitments (note 19)		
Shareholders' equity		
Common shares (note 15)	**655,028**	622,665
Contributed surplus (note 17)	**34,142**	26,116
Deficit	**(215,021)**	(243,280)
Accumulated other comprehensive income	**119,049**	163,336
	593,198	568,837
	1,140,667	978,959

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

CES Energy Solutions Corp.

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

	Year Ended December 31,	
	2017	2016
Revenue	**1,029,640**	567,726
Cost of sales (note 11)	**779,839**	455,945
Gross margin	**249,801**	111,781
General and administrative expenses (note 12)	**183,638**	143,651
Operating profit (loss)	**66,163**	(31,870)
Finance costs (note 13)	**40,196**	27,008
Other (income) loss	**(85)**	178
Income (loss) before taxes	**26,052**	(59,056)
Current income tax (recovery) expense (note 14)	**(5,033)**	2,199
Deferred income tax (recovery) expense (note 14)	**(5,156)**	3,295
Net income (loss)	**36,241**	(64,550)
Other comprehensive loss (items that may be subsequently reclassified to profit and loss):		
Unrealized foreign exchange loss on translation of foreign operations	**(44,340)**	(21,882)
Change in fair value of available for sale financial assets, net of tax	**53**	(62)
Comprehensive loss	**(8,046)**	(86,494)
Net income (loss) per share (note 15)		
Basic	**0.14**	(0.27)
Diluted	**0.13**	(0.27)

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

CES Energy Solutions Corp.
Consolidated Statements of Changes in Equity
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2017	2016
COMMON SHARES		
Balance, beginning of year	**622,665**	484,932
Issued pursuant to the Offering, net of share issue costs and taxes (note 15)	**-**	89,008
Consideration for business combinations, net of issuance costs (note 4)	**12,796**	25,204
Issued pursuant to stock-based compensation (note 16)	**19,541**	23,501
Issued pursuant to stock settled director fee	**26**	20
Balance, end of year	**655,028**	622,665
CONTRIBUTED SURPLUS		
Balance, beginning of year	**26,116**	29,430
Reclassified pursuant to stock-based compensation (note 15)	**(14,829)**	(21,010)
Stock-based compensation expense (note 17)	**22,855**	17,696
Balance, end of year	**34,142**	26,116
DEFICIT		
Balance, beginning of year	**(243,280)**	(167,994)
Net income (loss)	**36,241**	(64,550)
Dividends declared (note 18)	**(7,982)**	(10,736)
Balance, end of year	**(215,021)**	(243,280)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**163,336**	185,280
Unrealized foreign exchange loss on translation of foreign operations	**(44,340)**	(21,882)
Change in fair value of available-for-sale financial assets, net of tax	**53**	(62)
Balance, end of year	**119,049**	163,336
	593,198	568,837

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

CES Energy Solutions Corp.
Consolidated Statements of Cash Flows
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2017	2016
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income (loss)	**36,241**	(64,550)
Adjustments for:		
Depreciation and amortization	**65,031**	61,208
Stock-based compensation (note 16)	**22,855**	17,696
Other non-cash expenses	**1,469**	4,265
Deferred income tax expense (recovery) (note 14)	**(5,156)**	3,295
Gain on disposal of assets	**(1,297)**	(1,570)
Other (income) loss	**(43)**	178
Finance costs	**11,064**	-
Change in non-cash working capital (note 22)	**(153,455)**	36,939
	(23,291)	57,461
FINANCING ACTIVITIES:		
Repayment of long-term debt and finance leases	**(9,634)**	(8,733)
7.375% Senior Notes redemption (note 9)	**(311,064)**	-
Net proceeds from Senior Notes issuance (note 9)	**292,974**	-
Increase (decrease) in Senior Facility	**110,038**	(1,331)
Shareholder dividends	**(7,969)**	(14,048)
Issuance of shares, net of issuance costs	**4,682**	90,392
	79,027	66,280
INVESTING ACTIVITIES:		
Investment in property and equipment	**(62,094)**	(34,844)
Investment in intangible assets	**(4,497)**	(2,035)
Investment in other assets	**(1,777)**	(1,186)
Deferred acquisition consideration (note 4)	**(4,515)**	(12,500)
Business combinations (note 4)	**(10,050)**	(61,718)
Insurance proceeds on replacement property and equipment	**1,475**	-
Proceeds on disposal of property and equipment	**12,332**	6,374
	(69,126)	(105,909)
Effect of foreign exchange on cash	**-**	(4,442)
CHANGE IN CASH	**(13,390)**	13,390
Cash, beginning of year	**13,390**	-
Cash, end of year	-	13,390
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**27,364**	22,969
Income taxes recovered	**(3,202)**	(15,200)

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

1. The Company

CES Energy Solutions 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, 2017 and 2016 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, StimWrx Energy Services, Sialco Materials Ltd, JACAM Chemicals, Catalyst Oilfield Services, Superior Weighting Products, and Clear Environmental Solutions.

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 1, 2018.

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 net income (loss) and comprehensive loss 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 valuation write-downs are included in cost of sales on the statement of net income (loss) and comprehensive loss.

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 net income (loss) and comprehensive loss.

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	12-20 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, redemption premiums owing on repayment of senior unsecured notes, financial derivative gains and losses, foreign currency gains and losses resulting from foreign currency monetary items 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 net income (loss) and comprehensive loss, 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 net income. Realized gains and losses from financial derivatives are recognized as they occur. Unrealized gains and losses are recognized in net 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. 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 are 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.

Other Provisions & Contingencies
The determination of other provisions and contingent liabilities is a complex process that involves judgments about the outcomes of future events, estimates of timing and amount of future expenditures, the interpretation of laws and regulations, and discount rates. The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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"*. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. CES will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed its review of IFRS 15 and has concluded that the adoption of this standard will not have a material impact on CES' net income or financial position. However, the new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 15.

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. CES will retrospectively adopt IFRS 9 on January 1, 2018. The Company has completed its review of IFRS 9, and does not expect that the adoption of the standard will result in any changes to the Company's existing classification or carrying values of financial instruments. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets will not result in any material changes to the valuation of CES' financial assets. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 9.

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
StimWrx Energy Services, Ltd.
On January 5, 2017, CES completed the acquisition of all outstanding shares of StimWrx Energy Services Ltd. ("StimWrx"), herein referred to as the StimWrx Acquisition. StimWrx was a private company based out of Calgary, AB, that provided near matrix stimulation and remediation of oil, gas, and injection wells in Western Canada.
The effective date of the StimWrx Acquisition was January 1, 2017. The aggregate purchase price was $27,838 consisting of $10,050 in cash paid on the date of acquisition, $12,825 in share consideration satisfied through the issuance of 1,783,745 common shares of the Company, and $4,963 in cash for other post close working capital adjustments and deferred acquisition consideration.

Included in the deferred acquisition consideration is $4,180 which is payable in cash as an earn-out upon the StimWrx division achieving certain EBITDA thresholds over a twelve month period post close. The common shares issued are subject to escrow provisions, with one-third of the escrowed shares being released, subject to customary industry exceptions and indemnities under the share purchase agreement, on each of the first, second, and third anniversaries of the closing of the StimWrx Acquisition. In conjunction with the StimWrx Acquisition, the Company recorded $147 in transaction costs to general and administrative expenses during the year-ended December 31, 2017.

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

Allocation of purchase price $000's	
Current assets	3,834
Property and equipment	8
Intangible assets	9,600
Goodwill	18,131
Total assets	**31,573**
Current liabilities	(2,440)
Deferred income tax liability	(1,294)
Total liabilities	**(3,734)**
Net assets acquired	**27,838**

Consideration given $000's	
Cash	10,050
Share consideration	12,825
Deferred acquisition consideration	4,963
Total consideration	**27,838**

From the date of this acquisition to December 31, 2017, StimWrx contributed an estimated $11,618 of revenue to the Company. The amount of profit or loss attributable to the acquisition from the date of acquisition to December 31, 2017, is not readily determinable. The goodwill recognized on the StimWrx 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.

2016 Acquisitions

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 effective 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

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.

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

$000s	
Balance at December 31, 2016	4,615
Additions through business combinations	4,963
Settlements	(4,515)
Effect of movements in exchange rates	7
Balance at December 31, 2017	5,070
Current portion	4,550
Long-term portion	520

Included in deferred acquisition consideration at December 31, 2017 is $4,180 in amounts payable, resulting from current year acquisitions, to be paid if and when certain sales thresholds are achieved. As at December 31, 2017, the Company expects to pay $4,180 in the first quarter of 2018.

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2017, was $481,307 (2016 – $251,491). During the year ended December 31, 2017, the Company recorded a negligible amount of inventory valuation write-downs and write-down reversals (2016 – also negligible).

6. Property and Equipment

Property and equipment are comprised of the following balances:

$000s	Balance December 31, 2016	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	Balance December 31, 2017
Cost:						
Buildings & leasehold improvements	121,829	-	13,831	(2,827)	(5,344)	127,489
Processing equipment	48,635	-	8,453	(2,204)	(2,998)	51,886
Trucks and trailers	62,904	-	14,919	(2,142)	(3,954)	71,727
Vehicles	39,739	-	20,693	(10,207)	(2,207)	48,018
Tanks	39,854	8	3,641	(476)	(2,123)	40,904
Field equipment	43,071	-	8,821	(1,301)	(2,423)	48,168
Aircraft	26,530	-	3,754	(7,308)	(389)	22,587
Land	10,582	-	2,171	-	(424)	12,329
Office & computer equipment	11,851	-	1,507	(201)	(717)	12,440
	404,995	8	77,790	(26,666)	(20,579)	435,548

$000s	Balance December 31, 2016	Depreciation for the year	Disposals	Effect of movements in exchange rates	Balance December 31, 2017
Depreciation:					
Buildings & leasehold improvements	20,137	6,563	(742)	(374)	25,584
Processing equipment	10,436	3,823	(1,641)	(419)	12,199
Trucks and trailers	33,975	10,346	(1,547)	(2,191)	40,583
Vehicles	16,631	8,803	(6,415)	(1,130)	17,889
Tanks	9,076	3,863	(39)	(520)	12,380
Field equipment	22,025	6,406	(740)	(1,845)	25,846
Aircraft	7,772	1,666	(1,962)	(57)	7,419
Land	-	-	-	-	-
Office & computer equipment	8,420	1,839	(166)	(430)	9,663
	128,472	43,309	(13,252)	(6,966)	151,563

$000s	Balance December 31, 2016	Balance December 31, 2017
Carrying amounts:		
Buildings & leasehold improvements	101,692	101,905
Processing equipment	38,199	39,687
Trucks and trailers	28,929	31,144
Vehicles	23,108	30,129
Tanks	30,778	28,524
Field equipment	21,046	22,322
Aircraft	18,758	15,168
Land	10,582	12,329
Office & computer equipment	3,431	2,777
	276,523	283,985

$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
Processing equipment	45,546	1,915	2,368	(72)	(1,122)	48,635
Trucks and trailers	60,333	3,409	3,522	(3,017)	(1,343)	62,904
Vehicles	38,538	2,467	9,140	(9,410)	(996)	39,739
Tanks	32,448	4,062	3,958	(76)	(538)	39,854
Field equipment	36,358	1,886	7,010	(1,472)	(711)	43,071
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
Processing equipment	6,815	3,705	(35)	(49)	10,436
Trucks and trailers	26,430	10,030	(2,024)	(461)	33,975
Vehicles	15,309	7,367	(5,480)	(565)	16,631
Tanks	6,857	2,321	(64)	(38)	9,076
Field equipment	17,046	5,996	(649)	(368)	22,025
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
Processing equipment	38,731	38,199
Trucks and trailers	33,903	28,929
Vehicles	23,229	23,108
Tanks	25,591	30,778
Field equipment	19,312	21,046
Aircraft	20,784	18,758
Land	9,588	10,582
Office & computer equipment	4,661	3,431
	269,500	276,523

Borrowing costs
For the year ended December 31, 2017, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $91 (2016 – $361).

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, 2016	93,688	16,643	62,132	172,463	274,505
Additions through business combinations	8,500	-	1,100	9,600	18,131
Additions	-	3,869	786	4,655	-
Effect of movements in exchange rates	(4,748)	(631)	(2,961)	(8,340)	(14,170)
Balance at December 31, 2017	97,440	19,881	61,057	178,378	278,466
Amortization:					
Balance at December 31, 2016	49,369	10,110	22,250	81,729	-
Amortization for the year	10,802	4,403	6,517	21,722	-
Effect of movements in exchange rates	(2,389)	(534)	(1,599)	(4,522)	-
Balance at December 31, 2017	57,782	13,979	27,168	98,929	-
Carrying amount at December 31, 2017	**39,658**	**5,902**	**33,889**	**79,449**	**278,466**

$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**

Impairment testing for cash-generating units containing goodwill – 2017

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, 2016	58,530	215,975	274,505
Additions through business combinations (note 4)	18,131	-	18,131
Effect of movements in exchange rates	-	(14,170)	(14,170)
Balance at December 31, 2017	76,661	201,805	278,466

[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, 2017, 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 in future cash flows. An estimated risk adjusted, pre-tax discount rate of 14.5% was used as at December 31, 2017 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 13% in 2018 to 4% in later years for both CGUs, and 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 – 2016

$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 prepared cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that ranged from 48% in 2017 to 4% in later years, and 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.

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, 2017**	December 31, 2016
Fixed income securities, with maturities due:		
Less than 1 year	**2,086**	1,901
1-5 years	**3,332**	1,765
Greater than 5 years	**918**	483
	6,336	4,149
Cash and cash equivalents	**424**	1,522
Equities	**761**	574
Other assets	**7,521**	6,245

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

Certain of these investments in the amount of $1,174 (December 31, 2016 - $1,357) 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

Senior Facility

On July 14, 2017, the Company completed an amendment and two year extension of its existing syndicated senior facility (the "Senior Facility"). All of the amendments took effect July 14, 2017 and will remain in effect until maturity of September 28, 2020, subject to certain terms and conditions, and may be extended by one year upon agreement of the lenders and the Company. The principal amendments to the Senior Facility include an increase in the available borrowing amount from $150,000 to

$165,000, certain changes to the Company's debt covenants as outlined below, and improved pricing on amounts drawn. Other terms and conditions from the amendment remain consistent with those of the previous senior facility.

The amended Senior Facility is comprised of a Canadian facility of $125,000 and a US facility of US$40,000. 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 0.45% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

Under the Senior Facility, CES is subject to the following financial covenants:

- The ratio of Net Senior Debt to trailing EBITDA must not exceed 2.50:1.00 (formerly 2.25:1.00) calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00 (formerly 2.00:1.00), calculated on a rolling four-quarter basis.

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

- Net Senior Debt is defined as Total Net Funded Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- 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.
- 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.

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

The Company's debt covenant calculations as December 31, 2017 and December 31, 2016, are as follows:

	As at	
$000s	**December 31, 2017**	December 31, 2016
Net Senior Funded Debt	**130,376**	4,138
EBITDA for the four quarters ended	**152,414**	53,969
Ratio	**0.855**	0.077
Maximum	**2.500**	2.250
EBITDA for the four quarters ended	**152,414**	53,969
Interest Expense for the four quarters ended	**26,366**	23,189
Ratio	**5.781**	2.327
Minimum	**2.500**	1.500

As of December 31, 2017, the maximum available draw on the amended Senior Facility was $165,000 (December 31, 2016 - $121,430). As at December 31, 2017 the Company had a net draw of $109,255 (December 31, 2016 – $nil), with capitalized transaction costs of $671 (December 31, 2016 – $570). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

Senior Notes

As at December 31, 2016, the Company had $300,000 of outstanding principal on unsecured 7.375% senior notes due April 17, 2020 (the "7.375% Senior Notes"). The 7.375% Senior Notes incurred interest at a rate of 7.375% per annum and interest was payable semi-annually on April 17th and October 17th. On October 20, 2017, the Company completed the private placement of

$300,000 of 6.375% senior unsecured notes due October 21, 2024 (the “Senior Notes”), for net proceeds after offering expenses and commission of approximately of $292,974. The Company used the net proceeds from the issuance of the Senior Notes, along with amounts available under the Senior Facility, to repay the 7.375% Senior Notes. The redemption date in respect of the 7.375% Senior Notes was November 18, 2017, (the "Redemption Date") and the redemption price totaling $313,004, made up of principal ($300,000), accrued and unpaid interest ($1,940), and applicable redemption premium ($11,064) was due and payable on the Redemption Date.

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 October 21, 2020. Interest is payable on the Senior Notes semi-annually on April 21 and October 21. 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, 2017, the estimated fair value of the Senior Notes was $308,918. At December 31, 2016, the estimated fair value of the 7.375% Senior Notes was $317,599.

As at December 31, 2017, the Company was in compliance with the terms and covenants of its lending agreements.

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

	As at	
$000s	**December 31, 2017**	December 31, 2016
Senior Facility	**109,926**	-
Senior Notes	**300,000**	300,000
	409,926	300,000
Less net unamortized debt issue costs	**(7,505)**	(3,683)
Add net unamortized debt premium	**-**	2,453
Long-term debt	**402,421**	298,770

For the year ended December 31, 2017, the Company recorded $27,639 (2016 – $24,462) 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, 2017, are as follows:

$000s	
2018	**-**
2019	**-**
2020	**109,926**
2021	**-**
2022	**-**
	109,926

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 2018 through February 2022 with interest rates of up to 9.27% and a weighted average interest rate of 5.04%. The carrying value of assets under finance leases at December 31, 2017 totaled $25,794 (December 31, 2016 – $20,225), of which $24,235 relates to vehicles, $916 relates to tanks, $614 relates to trucks and trailers, and $29 relates to other machinery and field equipment. Amortization expense relating to assets under finance leases for the year ended December 31, 2017 totaled $7,184 (2016 – $5,679).

Future minimum lease payments outstanding under the Company's finance lease obligations at December 31, 2017 are as follows:

$000s	
Less than 1 year	**7,307**
1-5 years	**13,756**
5+ years	**-**
Total lease payments	**21,063**
Amount representing implicit interest	**(1,207)**
Finance lease obligations	**19,856**
Less: current portion of finance lease obligations	**(8,413)**
Long-term finance lease obligations	**11,443**

11. Cost of Sales

Included in cost of sales for the year ended December 31, 2017, is depreciation charged on property and equipment of $38,136 (2016 – $35,779) and employee compensation and benefits of $124,702 (2016 – $98,890).

12. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2017, is depreciation charged on property and equipment and amortization charged on intangible assets of $26,895 (2016 – $25,429), stock-based compensation of $22,855 (2016 – $17,696), and employee compensation and benefits of $76,750 (2016 – $52,097).

13. Finance Costs

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

	Year Ended December 31,	
$000s	**2017**	2016
Realized foreign exchange (gain) loss	**(910)**	1,746
Unrealized foreign exchange loss	**48**	26
Realized financial derivative loss (gain)	**1,799**	(1,908)
Unrealized financial derivative (gain) loss	**(55)**	2,928
Amortization of debt issue costs and premium	**1,273**	1,271
Interest on debt, net of interest income	**26,385**	23,306
Less: capitalized interest	**(91)**	(361)
Other finance costs	**11,747**	-
Finance costs	**40,196**	27,008

For the year ended December 31, 2017, the Company has recorded $11,747 in other finance costs relating to the applicable redemption premium, and unwind of deferred financing costs and unamortized debt premium on the 7.375% Senior Notes that were redeemed on November 18, 2017.

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	**2017**	2016
Current income tax (recovery) expense		
Current year income tax expense (recovery)	**1,577**	(4,718)
New taxes imposed [1]	**469**	-
Prior year income tax (recovery) expense adjustment	**(7,079)**	6,917
Total current income tax (recovery) expense	**(5,033)**	2,199
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	**(11,948)**	3,341
Changes in tax rates [1]	**7,005**	-
Adjustments for prior years	**(213)**	(46)
Total deferred income tax (recovery) expense	**(5,156)**	3,295
Total income tax (recovery) expense	**(10,189)**	5,494

[1] On December 22, 2017, significant US Tax Reform was enacted under the Tax Cuts and Jobs Act in the United States ("US Tax Reform"), which will impact CES' US subsidiary, AES Drilling Fluids Holdings, LLC, and its consolidated US group. The majority of the US Tax Reform changes are effective January 1, 2018, including a reduction in the US federal corporate income tax rate to 21% from the current 35%. CES is required to recognize the effect of certain changes to its income tax expense in the period US Tax Reform was enacted and as such, the Company has recorded a current income tax expense of $469 and deferred income tax expense of $7,005 for the quarter ended December 31, 2017 related to US Tax Reform.

The variation between the income taxes calculated at the Canadian statutory rate and the Company's recorded income taxes is explained as follows:

	Year Ended December 31,	
$000s	**2017**	2016
Income (loss) before taxes	**26,052**	(59,056)
Combined Canadian statutory rate	**26.87%**	26.92%
Provision for income taxes computed at the Canadian statutory rate	**7,000**	(15,899)
Effects on taxes resulting from		
Non-deductible expenses	**170**	1,482
Stock-based compensation	**4,195**	2,718
Deductions for tax in excess of accounting, net	**(14,969)**	(14,896)
Adjustment of prior year taxes	**(289)**	(132)
Proposed CRA settlement	**(7,003)**	7,003
Non-taxable capital gains or losses	**(6)**	117
Income tax in jurisdictions with different tax rates	**(1,466)**	(9,308)
Foreign exchange	**(633)**	14
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	**(4,787)**	34,062
Change in statutory rate	**126**	-
Effect of US tax reform	**7,473**	-
Income tax (recovery) expense	**(10,189)**	5,494

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

	As at	
$000s	**December 31, 2017**	December 31, 2016
Property and equipment	**21,780**	26,296
Goodwill and other intangible assets	**(7,362)**	(20,408)
Financing costs and other tax credits	**(10,547)**	(982)
Other temporary differences	**(7,427)**	(5,627)
Non-capital losses	**(22,420)**	(38,059)
Capital losses	**(1,416)**	(1,894)
Unrecognized tax benefit, net	**19,706**	35,900
Total, net deferred income tax (asset) liability	**(7,686)**	(4,774)
Deferred income tax asset	**(13,437)**	(11,473)
Deferred income tax liability	**5,751**	6,699

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.

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

	Year Ended December 31,	
	2017	2016
Deferred income tax liabilities:		
Charged (credited) to earnings	**(2,109)**	379
Charged (credited) to goodwill	**1,161**	-
Charged (credited) to equity	**-**	(1,288)
	(948)	(909)
Deferred income tax assets:		
Charged (credited) to earnings	**(2,913)**	3,097
Charged (credited) to equity	**949**	498
	(1,964)	3,595
Net Movement	**(2,912)**	2,687

No deferred tax liability has been recognized as at December 31, 2017 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, 2017	Expiration Date
Canada:		
Non-capital losses	**6,470**	2031-2037
Net capital losses	**10,534**	Indefinite
United States:		
Non-capital losses	**79,232**	2035-2036
Luxembourg		
Operating losses	**304**	2034

As at December 31, 2017, there are unrecognized deferred income tax assets relating to capital and non-capital losses of $12,082 and other financing costs of $7,625. These have not been recognized due to the uncertainty over recoverability of these respective deferred tax assets

In Q4 2017, CES successfully reached an agreement with the Canada Revenue Agency (the "CRA") regarding their proposed reassessment relating to the tax consequences of the conversion from a partnership to a corporation on January 1, 2010 ("the Conversion"). The Company had previously accrued $7,003 million in current tax expense relating to this proposed reassessment, which was reversed in the third quarter of 2017. The settlement agreement reached with the CRA will not give rise to any cash outlay by CES for the current year or any prior taxation years and will have no impact on the current or deferred tax pool balances previously recorded by the Company. The net result is that the Company was able to fully realize on the operating losses that were acquired as part of 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, 2017		Year Ended December 31, 2016	
***Common Shares** (\$000s, except number of shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**262,300,999**	**622,665**	220,424,818	484,932
Issued pursuant to the Offering, net of share issue costs and taxes	**-**	**-**	30,670,500	89,008
Consideration for business combinations, net of share issue costs	**1,783,745**	**12,796**	7,160,253	25,204
Issued pursuant to stock-based compensation	**3,846,450**	**4,712**	4,040,160	2,491
Contributed surplus related to stock-based compensation	**-**	**14,829**	-	21,010
Issued pursuant to stock settled director fee	**3,896**	**26**	5,268	20
Balance, end of year	**267,935,090**	**655,028**	262,300,999	622,665

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. Net proceeds, after offering expenses and underwriter's commission of approximately $4,141, were $87,902.

c) Net loss per share

In calculating the basic and diluted net income (loss) per share for the year ended December 31, 2017 and 2016, 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	**2017**	2016
Net income (loss)	**36,241**	(64,550)
Weighted average number of shares outstanding:		
Basic shares outstanding	**265,865,387**	243,171,601
Effect of dilutive shares	**6,962,909**	-
Diluted shares outstanding	**272,828,296**	243,171,601
Net income (loss) per share - basic	**\$0.14**	(\$0.27)
Net income (loss) per share - diluted	**\$0.13**	(\$0.27)

Excluded from the calculation of dilutive shares for the year ended December 31, 2017, are 14,875,400 of Share Rights and 4,706,493 of Restricted Share Units (2016 – 14,045,400 of Share Rights and 4,858,585 of Restricted Share Units) that are considered anti-dilutive.

16. Stock-Based Compensation

As at December 31, 2017, a total of 26,793,509 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 7,211,616 common shares remained available for grant. For the year ended December 31, 2017, stock compensation expense of $22,855 (2016 – $17,696) 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:

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**14,045,400**	**$6.26**	11,248,244	$7.07
Granted during the year	**3,281,400**	**5.99**	4,758,000	4.40
Exercised during the year	**(1,158,400)**	**4.07**	(694,344)	3.59
Expired during the year	**(114,000)**	**3.57**	(27,000)	3.44
Forfeited during the year	**(1,179,000)**	**6.03**	(1,239,500)	7.64
Balance, end of year	**14,875,400**	**$6.38**	14,045,400	$6.26
Exercisable Share Rights, end of year	**7,167,332**	**$7.23**	4,996,066	$7.18

The compensation costs for Share Rights granted during the year ended December 31, 2017, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2017
Risk-free interest rate	**1.09%**
Expected average life of Share Rights	**3.2 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.87%**
Dividend yield	**0.22%**
Expected volatility	**54.70%**
Weighted average share price	**$5.99**
Weighted average fair value per Share Right	**$2.27**

The following table summarizes information about the outstanding grants under the Company's SRIP as at December 31, 2017:

	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 - $4.83	3,653,000	4.18	3.62	1,007,000	4.25
$4.84 - $6.77	3,418,400	5.93	4.24	315,000	6.23
$6.78 - $7.07	4,542,000	6.92	2.37	2,985,666	6.92
$7.08 - $7.37	1,617,000	7.25	1.60	1,357,000	7.25
$7.38 - $10.98	1,645,000	9.81	1.66	1,502,666	10.03
	14,875,400	$6.38	2.94	7,167,332	$7.23

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, 2017		Year Ended December 31, 2016	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**4,858,585**	**$6.19**	4,892,227	$6.32
Granted during the year	**2,806,886**	**6.66**	3,489,701	4.38
Reinvested during the year	**23,798**	**5.61**	71,839	6.09
Vested during the year	**(2,688,050)**	**5.11**	(3,345,816)	6.06
Forfeited during the year	**(294,726)**	**5.24**	(249,366)	7.25
Balance, end of year	**4,706,493**	**$5.98**	4,858,585	$6.19

The weighted average fair value of RSUs granted during the year ended December 31, 2017, was $6.66 per RSU (2016 - $4.38). 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, 2017, was reduced by an estimated weighted average forfeiture rate of 4.14% 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, 2017**	Year Ended December 31, 2016
Contributed surplus, beginning of year	**26,116**	29,430
Reclassified pursuant to stock-based compensation	**(14,829)**	(21,010)
Stock-based compensation expense	**22,855**	17,696
Contributed surplus, end of year	**34,142**	26,116

18. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2017, as follows:

$000s except per share amounts	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	$0.0025	**660**
February	Feb 28	Mar 15	$0.0025	**661**
March	Mar 31	Apr 13	$0.0025	**662**
April	Apr 28	May 15	$0.0025	**662**
May	May 31	Jun 15	$0.0025	**664**
June	Jun 30	Jul 14	$0.0025	**664**
July	Jul 31	Aug 15	$0.0025	**664**
August	Aug 31	Sep 15	$0.0025	**667**
September	Sep 29	Oct 13	$0.0025	**669**
October	Oct 31	Nov 15	$0.0025	**669**
November	Nov 30	Dec 15	$0.0025	**670**
December	Dec 29	Jan 15	$0.0025	**670**
Total dividends declared during the year			$0.0300	**7,982**

Subsequent to December 31, 2017, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share payable on February 15, 2018 and March 15, 2018, for shareholders of record on January 31, 2018 and February 28, 2018, respectively.

19. Commitments

The Company has commitments with payments due as follows:

$000s	2018	2019	2020	2021	2022	Total
Office and facility rent, and other	7,356	4,149	3,011	1,876	490	**16,882**

Payments denominated in foreign currencies have been translated using the appropriate December 31, 2017 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, 2017 with that as at December 31, 2016. 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, 2017. 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, 2017					
Financial derivative liability	(512)	(512)	-	(512)	-
Other assets	7,521	7,521	7,521	-	-
	7,009	7,009	7,521	(512)	-
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)	-

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, 2017**	December 31, 2016
Past due 61-90 days	**27,309**	12,112
Past due 91-120 days	**6,754**	3,596
Past 120 days	**10,197**	6,436
Total past due	**44,260**	22,144

The Company reduces an account receivable to its estimated recoverable amount. At December 31, 2017, the Company had recorded a provision of $2,224 (December 31, 2016 – $2,999) 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, 2017**	December 31, 2016
Balance, beginning of year	**2,999**	2,903
Additional allowance	**844**	1,143
Amounts collected	**(522)**	(546)
Amounts used	**(961)**	(440)
Effect of movements in exchange rates	**(136)**	(61)
Balance, end of year	**2,224**	2,999

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, 2017, 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 $372 lower/higher for the respective year ended December 31, 2017 (2016 – $58 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, 2017, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to decrease/increase net income by approximately $980 (2016 – decrease/increase $426).

At December 31, 2017, the Company had entered into the following foreign exchange USD forward purchase 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$000s**	**Contract Type**	**Settlement**	**Average USDCAD Exchange Rate**
January 2018	US$4,000	Deliverable Forward	Physical Purchase	$1.3023
February 2018	US$4,000	Deliverable Forward	Physical Purchase	$1.3016
March 2018	US$3,000	Deliverable Forward	Physical Purchase	$1.2961
Total	US$11,000			$1.3004

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 net income (loss) and comprehensive loss:

	Year Ended December 31,	
$000s	**2017**	2016
Realized financial derivative loss (gain)	**1,799**	(1,908)
Unrealized financial derivative (gain) loss	**(55)**	2,928
Financial derivative loss	**1,744**	1,020

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

	As at	
$000s	**December 31, 2017**	December 31, 2016
Financial derivative asset	**-**	20
Financial derivative liability	**(512)**	(588)

At December 31, 2017, a 1% decrease in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase to net income of $138 (2016 – $344) 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 $138 (2016 –$45) 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, 2017, 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, 2017:

	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	112,718	-	-	-	-	**112,718**
Dividends payable [2]	670	-	-	-	-	**670**
Income taxes payable	-	471	-	-	-	**471**
Deferred acquisition consideration	4,550	-	370	150	-	**5,070**
Senior Notes [4]	-	-	-	-	300,000	**300,000**
Interest on Senior Notes	-	19,125	19,125	57,375	38,250	**133,875**
Finance lease obligations at floating interest rates [3]	1,321	7,092	7,639	3,804	-	**19,856**
Office and facility rent, and other	2,055	5,302	4,149	5,377	2,737	**19,620**
	121,314	31,990	31,283	66,706	340,987	**592,280**

Notes:

[1] *Payments denominated in foreign currencies have been translated using the appropriate December 31, 2017 exchange rate.*

[2] *Dividends declared as of December 31, 2017.*

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

[4] *The Senior Notes are due on October 21, 2024.*

21. Capital Management

For the year ended December 31, 2017, the Company considers capital to include shareholders' equity and long-term debt. This remains consistent with the year ended December 31, 2016. 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, 2017**	December 31, 2016
Long-term debt [1]	**409,926**	300,000
Shareholders' equity	**593,198**	568,837
Total capitalization	**1,003,124**	868,837

[1] *Includes: Senior Notes and net draw on Senior Facility*

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, 2017, 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	**2017**	2016
(Increase) decrease in current assets		
Accounts receivable	**(118,092)**	7,316
Inventory	**(63,280)**	5,045
Prepaid expenses and deposits	**(2,495)**	2,183
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**30,173**	21,772
	(153,694)	36,316
Relating to:		
Operating activities	**(153,455)**	36,939
Investing activities	**(239)**	(623)

For the years ended December 31, 2017 and 2016, 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	**2017**	2016
United States	**651,983**	371,816
Canada	**377,657**	195,910
	1,029,640	567,726

	Long-Term Assets [1]	
$000s	**December 31, 2017**	December 31, 2016
Canada	**205,429**	166,850
United States	**443,992**	481,157
	649,421	648,007

[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, 2017, remuneration of $11,677 included $8,707 of salaries and cash-based compensation and $2,969 of stock-based compensation costs (December 31, 2016 – $2,139 and $5,885, respectively).

During year ended December 31, 2017, CES sold property and equipment with an aggregate net book value of $1,104 to a former employee and former director of the Company, who at the time of the transaction were employees of the Company, and to companies controlled by the respective former employee and former director, for proceeds of $576.

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:

Subsidiary Name	Country of Incorporation	Ownership Interest %	
		December 31, 2017	December 31, 2016
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, 2017, one customer accounted for 12% (2016 – 10%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

BOARD OF DIRECTORS
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Chairman

D. Michael G. Stewart[1,4]

John M. Hooks[2,4]

Rodney L. Carpenter[3]

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Stella Cosby[3]

Thomas J. Simons

[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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President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Jason D. Waugh
Vice President

Richard Baxter
President, AES Drilling Fluids, LLC

Vern Disney
Chief Operating Officer, Catalyst Oilfield Services 2016, LLC and JACAM Chemical Company 2013, LLC

James M. Pasieka
Corporate Secretary

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Chartered Professional Accountants, Calgary, AB

BANKERS
Scotiabank Canada, Calgary, AB

SOLICITORS
McCarthy Tetrault, LLP, Calgary, AB
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