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, 2018 and 2017, and CES' 2018 Annual Information Form. Readers should also refer to the "Forward-looking Information & Statements" legal advisory and the section regarding "Non-GAAP Measures" and "Operational Definitions" at the end of this MD&A. This MD&A is dated March 12, 2019, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

USE OF NON-GAAP MEASURES

This MD&A contains certain financial measures that are not recognized by Canadian generally accepted accounting principles ("GAAP"), and which are used by management to evaluate the performance of CES and its business segments. Since certain non-GAAP financial measures do not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. Please refer to the section titled NON-GAAP MEASURES on page 22 for further information on the definition, calculation and reconciliation of the non-GAAP financial measures contained in this MD&A.

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.

CES operates in several basins throughout the United States ("US"), including Permian, Eagleford, Bakken and Marcellus, as well as in the Western Canadian Sedimentary Basin ("WCSB") with an emphasis on servicing the ongoing major resource plays. In the US, CES operates under the trade names AES Drilling Fluids ("AES"), Superior Weighting Products ("Superior Weighting"), JACAM Chemicals ("JACAM"), and Catalyst Oilfield Services ("Catalyst"). 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").

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. The StimWrx brand provides near matrix stimulation and remediation of oil, gas, and injection wells in Western Canada and the US. The Canadian Energy Services and AES brands are focused on the design and implementation of drilling fluids systems and completion solutions sold directly to oil and gas producers. The Superior Weighting brand custom grinds minerals including barite, which is the weighting agent utilized in most drilling fluid systems.

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 and water transfer 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: two in Houston, Texas; two in Midland, Texas; one in Sterling, Kansas; and one in each of Calgary, Alberta; Grand Prairie, Alberta; Carlyle, Saskatchewan; and Delta, British Columbia. 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, Nisku, Alberta, and Grand Prairie, Alberta. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

CES continues to see improvement in its financial position and the Company's Board of Directors and management believe that the market price of CES' common shares do not reflect their underlying value. On July 17, 2018, the Company began a normal course issuer bid ("NCIB") to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. In Q4 2018, the Company repurchased 2,099,900 common shares at an average price of $3.42 per share for a total amount $7.2 million. Year-to-date, the Company repurchased 4,799,900 common shares at a weighted average price per share of $4.07 per share for a total amount of $19.5 million, representing 19.5% of total shares available to repurchase.

On June 14, 2018, CES doubled its monthly cash dividend from $0.0025 to $0.005 per common share. During Q4 2018, CES declared dividends totalling $0.015 per share as compared to $0.0075 per share for Q4 2017, resulting in a Dividend Payout Ratio averaging 15.3% in Q4 2018 as compared to 6.5% in Q4 2017. Year-to-date, the Company's Payout Ratio averaged 11.8% compared to 7.2% in 2017. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

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 production and specialty chemicals and drilling fluids in North America while generating free cash flow. CES' current dividend level and NCIB program preserve the strength of the Company's balance sheet while maintaining liquidity to fund potential growth initiatives. CES will continue to be protective of its balance sheet and prudent with its cash dividend and NCIB.

FINANCIAL HIGHLIGHTS

	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2018**	2017	% Change	**2018**	2017	% Change
Revenue						
United States	**239,754**	178,411	34%	**847,841**	651,983	30%
Canada	**108,151**	100,420	8%	**423,210**	377,657	12%
Total Revenue	**347,905**	278,831	25%	**1,271,051**	1,029,640	23%
Gross Margin	**69,702**	67,606	3%	**284,263**	249,801	14%
as a percentage of revenue	**20.0%**	24.2%		**22.4%**	24.3%	
Gross Margin (excluding depreciation)	**81,278**	78,243	4%	**325,548**	287,937	13%
as a percentage of revenue	**23.4%**	28.1%		**25.6%**	28.0%	
Net income	**15,467**	2,681	477%	**47,735**	36,241	32%
per share – basic	***0.06***	*0.01*	*500%*	***0.18***	*0.14*	*29%*
per share - diluted	***0.06***	*0.01*	*500%*	***0.17***	*0.13*	*31%*
Adjusted EBITDAC [(2)]	**42,074**	41,838	1%	**167,589**	154,049	9%
per share – basic	***0.16***	*0.16*	-	***0.63***	*0.58*	*9%*
per share - diluted	***0.15***	*0.15*	-	***0.61***	*0.56*	*9%*
Dividends declared	**3,994**	2,009	99%	**12,707**	7,982	59%
per share	***0.0150***	*0.0075*	100%	***0.0475***	*0.0300*	*58%*

	As at		
Financial Position ($000s)	**December 31, 2018**	December 31, 2017	% Change
Net working capital	**420,394**	350,475	20%
Total assets	**1,321,809**	1,140,667	16%
Long-term financial liabilities [(1)]	**473,980**	414,384	14%
Net Debt [(2)]	**53,586**	63,909	(16%)
Shareholders' equity	**697,570**	593,198	18%

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

Highlights for the three and twelve months ended December 31, 2018 in comparison to the three and twelve months ended December 31, 2017 for CES are as follows:

- Q4 2018 and 2018 annual revenue of $347.9 million and $1.3 billion, respectively, were both record quarterly and annual results for the Company. Further, the Company achieved Adjusted EBITDAC of $42.1 million and $167.6 million for the three and twelve months ended December 31, 2018, respectively, which represents increases over both prior year respective periods. The financial results reported for 2018 herein are reflective of continued improvements in CES' positioning, industry activity levels, and market conditions in response to commodity price trends, and are therefore generally improved from results achieved in 2017. The pick-up in activity continues to be most evident in the US, which represented 69% of CES' Q4 2018 revenue, allowing the Company to sell higher volumes of its products across its rationalized cost structure, and achieve record US revenue levels. Canada's participation in this increase has been more muted throughout 2018 given the heightened market uncertainty around current oil and gas takeaway capacity causing record price differentials and relatively low natural gas prices. As noted throughout 2018, CES experienced year-over-year cost inflation on input costs and people costs in certain markets, which have outpaced the Company's ability to realize meaningful price increases and mitigated its ability to fully capitalize on operating leverage potential during the year ended December 31, 2018, resulting in margin compression year-over-year.

- Net income for the three and twelve months ended December 31, 2018 was $15.5 million and $47.7 million, respectively, compared to $2.7 million and $36.2 million for the 2017 respective periods. Included in net income for the three and twelve months ended December 31, 2018, are certain one-time costs as follows: CFO-related management transition costs of $0.4 million and $2.8 million, respectively, and severance costs relating to strategic restructuring of PureChem in the amount of $0.4 million for both respective periods, as well as other income of $4.8 million related to insurance proceeds on property insurance claims received in the quarter. Excluding PureChem restructuring costs and one-time CFO transition costs, Q4 2018 Adjusted EBITDAC was $42.1 million, beating Adjusted EBITDAC of $41.8 million in Q4 2017. Adjusted EBITDAC for the year ended December 31, 2018 was $167.6 million as compared to $154.0 million for the year ended December 31, 2017, representing an increase of $13.6 million or 9%. Year-over-year, the Company's operating results continued to benefit from increased activity levels due to the improved commodity price environment, and CES' business' in both US and Canada have made positive contributions to revenue, net income and EBITDAC.

- CES generated record revenue of $347.9 million during Q4 2018, an increase of $69.1 million or 25% compared to $278.8 million in revenue for Q4 2017. Revenue for the year ended December 31, 2018 was $1.3 billion as compared to $1.0 billion for the year ended December 31, 2017, representing an increase of 23% year-over-year.

  - Revenue generated in the US increased 34% and 30% to $239.8 million and $847.8 million for the three and twelve months ended December 31, 2018, respectively, over the 2017 comparative periods. Both Q4 2018 and annual 2018 revenue generated in the US are the highest US revenues in the Company's history exceeding the previous records of $227.1 million in Q3 2018 and annual revenue of $652.0 million in 2017. The year-over-year increase in US revenues was enabled by CES' completed investments in US infrastructure and capabilities to date, significant activity improvement in the drilling fluids business and increased production chemical related US Treatment Points, particularly in the Permian Basin. For Q4 2018, the Company's US source revenues were also positively impacted on translation by weakness in the Canadian Dollar ("CAD") versus US Dollar ("USD"), compared to Q4 2017.

  - Revenue generated in Canada increased 8% and 12% to $108.2 million and $423.2 million for the three and twelve months ended December 31, 2018, respectively, over the 2017 comparative periods. PureChem contributed the majority of this gain for the three and twelve months ended December 31, 2018 compared to the comparative periods in prior year, as investments in PureChem infrastructure are largely complete and have enabled increased market share in Canada in the production chemicals business. Despite reasonable industry conditions in the first nine months of 2018, drilling activity in Canada in Q4 2018 was negatively impacted by heightened market uncertainty around lack of current oil and gas takeaway capacity and the resulting record price differentials. As a result, oil and gas operators pared back capital spending and drilling programs in Q4 2018, negatively impacting revenues in CES' Canadian drilling fluids business in Canada for the three months ended December 31, 2018 compared to the same period in 2017.

- In Q4 2018, CES recorded Gross Margin of $69.7 million or 20.0% of revenue, compared to Gross Margin of $67.6 million or 24.2% of revenue generated in Q4 2017. Annual Gross Margin totaled $284.3 million, compared to $249.8 million for the twelve months ended December 31, 2017, representing an increase of $34.5 million or 14%. In Q4 2018, CES recorded Gross Margin (excluding depreciation) of $81.3 million or 23.4% of revenue, compared to Gross Margin (excluding depreciation) of $78.2 million or 28.1% of revenue generated in Q4 2017. Annual Gross Margin (excluding depreciation) totaled $325.5 million, compared to $287.9 million for the twelve months ended December 31, 2017, representing an increase of $37.6 million or 13%. CES faced cost inflation throughout 2018, which has outpaced the combination of CES' operating leverage gains and ability to pass through its input costs to its customers for its products and services. Further, the decline in drilling activity due to the challenges facing the oil and gas industry in Canada during Q4 2018 negatively affected Gross Margin as activity levels declined and corresponding lower revenue was over the same fixed cost base. As a result, Gross Margin (excluding depreciation) as a percentage of revenue in Q4 2018 has decreased from Q4 2017. CES believes that, going forward, margins may benefit from increased sales in areas such as the Permian and the Deep Basin, realization of savings from recent Canadian headcount reductions, increased operating leverage from its expanded infrastructure completed in 2018 and from our innovative technologies, and superior service culture

- CES continues to maintain a prudent statement of financial position or "balance sheet" with positive net working capital of $420.4 million as at December 31, 2018 (December 31, 2017 – $350.5 million). This increase in net working capital year-over-year is primarily attributable to significantly increased revenue levels in 2018, and the resulting increase in accounts receivable, and inventory levels.

- At December 31, 2018, CES had a net draw of $161.5 million on its Senior Facility (December 31, 2017 – $109.3 million), an increase of $12.1 million from $149.4 million as at September 30, 2018, which is primarily driven by the working capital build referred to above, the capital expansion incurred in the quarter, which includes the completion of PureChem's Grande Prairie facility, and the buildout of the Kermit mud plant in the Permian Basin, and opportunistic share repurchases through CES' NCIB program. The maximum available draw on the Senior Facility at December 31, 2018 was $180.0 million on the Canadian facility and US$40.0 million on the US facility (December 31, 2017 - $125.0 million and US$40.0 million, respectively). At December 31, 2018, CES 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 $150.0 million on its Senior Facility.

OUTLOOK

CES continues to be optimistic about its prospects for 2019 and beyond. CES' record consolidated revenue result and record US revenue result in 2018 reflect its effective execution in a dynamic environment and CES' strategy has positioned the Company to take advantage of the opportunities ahead. CES believes that over time it can continue to grow its share of the oilfield consumable chemical markets in which it competes. CES also sees the consumable chemical market increasing its share of the oilfield spend as operators continue to: drill longer reach laterals and drill them faster; expand and optimize the utilization of pad drilling and cube development techniques; increase the intensity and size of their fracs; and require increasingly technical and specialized chemical treatments to effectively maintain existing cash flow generating wells and treat growing production from new wells.

In the US, CES' infrastructure is largely built out to meet anticipated growing production chemical and drilling fluid needs in the key basins. In the Permian Basin, the Kermit, Texas mud plant expansion has been designed to double capacity over 2017 levels, and has enabled the Company to take on new work and continue to grow market share. In addition, Catalyst's current platform is setup to capitalize on growing production and higher levels of activity in the Permian Basin, which CES believes will be even more pronounced in 2019 as several pipeline projects are on track to add significant offtake capacity. Further, CES continues to recruit top talent in this highly competitive region. CES plans to expand its barite grinding capabilities in the US, further adding to the Company's competitive positioning and operating leverage.

In Canada, market conditions faced headwinds due to current takeaway capacity constraints and lack of consistent market access causing commodity price differentials to widen significantly and curtailment of production levels, resulting in Canadian oil and gas operators paring back capital programs in Q1 2019 as winter drilling activity is trending down 30% over Q1 2018. Price differentials were positively impacted in Q4 2018 by the mandatory crude oil production curtailments established by the Alberta Government, CES believes that its current business is well positioned to capitalize on an improved Canadian outlook in H2 2019 and increased financial contribution from its PureChem division as the Company grows into this infrastructure and continues to add scale.

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 people and execution to increase market share. The downturn 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 as operators require increasingly technical solutions and deeper customer-centric coverage models to meet their needs. 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 robust oilfield activity levels in the US and weather the current decline in industry activity in Canada. 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 2019, it is expected that EBITDAC will materially exceed the sum of cash expenditures on interest, taxes, and capital expenditures, allowing for free cash flow to be returned to shareholders through CES' monthly dividend and recently implemented NCIB.

As CES' infrastructure buildout in both Canada and the US was largely completed in 2018, absent acceptable return expansionary capital projects, such as the buildout of the northeast US barite facility, CES expects capital expenditures in 2019 to return to levels below 2017-2018 levels. CES' business model, capital structure and free cash flow generation attributes continue to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions.

CES will continue to assess organic and 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 profitably growing market share, controlling costs, developing or acquiring new technologies and making strategic investments as required to position the business to capitalize on growing activity levels and increasing intensity.

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			
($000s, except per share amounts)	**2018**	2017	$ Change	% Change
Revenue	**347,905**	278,831	69,074	25%
Cost of sales	**278,203**	211,225	66,978	32%
Gross Margin	**69,702**	67,606	2,096	3%
Gross Margin percentage of revenue	**20.0%**	24.2%		
General and administrative expenses	**51,163**	48,112	3,051	6%
Finance costs	**8,161**	19,268	(11,107)	(58%)
Other income	**(4,767)**	(1)	(4,766)	nmf
Income before taxes	**15,145**	227	14,918	6572%
Current income tax expense (recovery)	**1,109**	(1,965)	3,074	nmf
Deferred income tax expense (recovery)	**(1,431)**	(489)	(942)	193%
Net income	**15,467**	2,681	12,786	477%
Net income per share – basic	***0.06***	*0.01*	*0.05*	500%
Net income per share – diluted	***0.06***	*0.01*	*0.05*	500%
Adjusted EBITDAC [(2)]	**42,074**	41,838	236	1%

Common Shares Outstanding	**2018**	2017	% Change
End of period	**265,886,609**	267,935,090	(0.8%)
Weighted average			
- basic	**266,932,999**	267,591,866	(0.2%)
- diluted	**273,294,794**	273,782,857	(0.2%)

	As at		
Financial Position ($000s)	**December 31, 2018**	December 31, 2017	% Change
Net working capital	**420,394**	350,475	20%
Total assets	**1,321,809**	1,140,667	16%
Long-term financial liabilities [(1)]	**473,980**	414,384	14%
Net Debt [(2)]	**53,586**	63,909	(16%)
Shareholders' equity	**697,570**	593,198	18%

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

	Year Ended December 31,			
($000s, except per share amounts)	**2018**	2017	$ Change	% Change
Revenue	**1,271,051**	1,029,640	241,411	23%
Cost of sales	**986,788**	779,839	206,949	27%
Gross Margin	**284,263**	249,801	34,462	14%
Gross Margin percentage of revenue	**22.4%**	24.3%		
General and administrative expenses	**210,926**	183,638	27,288	15%
Finance costs	**26,359**	40,196	(13,837)	(34%)
Other income	**(4,665)**	(85)	(4,580)	nmf
Income before taxes	**51,643**	26,052	25,591	98%
Current income tax expense (recovery)	**3,829**	(5,033)	8,862	nmf
Deferred income tax expense (recovery)	**79**	(5,156)	5,235	nmf
Net income	**47,735**	36,241	11,494	32%
Net income per share – basic	***0.18***	*0.14*	*0.04*	29%
Net income per share – diluted	***0.17***	*0.13*	*0.04*	31%
Adjusted EBITDAC [1]	**167,589**	154,049	13,540	9%

Common Shares Outstanding	**2018**	2017	% Change
End of period	**265,886,609**	267,935,090	(0.8%)
Weighted average			
- basic	**268,004,817**	265,865,387	0.8%
- diluted	**274,872,992**	272,828,296	0.7%

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

Revenue and Operating Activities

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

	Revenue			Revenue		
	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2018**	2017	% Change	**2018**	2017	% Change
United States	**239,754**	178,411	34%	**847,841**	651,983	30%
Canada	**108,151**	100,420	8%	**423,210**	377,657	12%
	347,905	278,831	25%	**1,271,051**	1,029,640	23%

Estimated Treatment Points, Average Rig Count, DF Market Share and industry rig counts for the three and twelve months ended December 31, 2018 and 2017, are as follows:

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	% Change	**2018**	2017	% Change
US	**29,229**	27,095	8%	**28,846**	26,178	10%
Canada	**8,535**	7,499	14%	**8,011**	6,886	16%
Total Treatment Points (1)	**37,764**	34,594	9%	**36,857**	33,064	11%
US	**10,874**	9,088	20%	**42,815**	34,424	24%
Canada	**6,087**	7,080	(14%)	**25,571**	27,010	(5%)
Total Operating Days(1)	**16,961**	16,168	5%	**68,386**	61,434	11%
US	**118**	99	19%	**117**	94	24%
Canada	**66**	77	(14%)	**70**	74	(5%)
Total Average Rig Count(1)	**184**	176	5%	**187**	168	11%
US industry rig count (2)	**1,011**	903	12%	**1,004**	856	17%
Canadian industry rig count (3)	**185**	200	(8%)	**196**	189	4%
US DF Market Share	**12%**	11%	1%	**12%**	11%	1%
Canadian DF Market Share	**36%**	39%	(3%)	**36%**	39%	(3%)

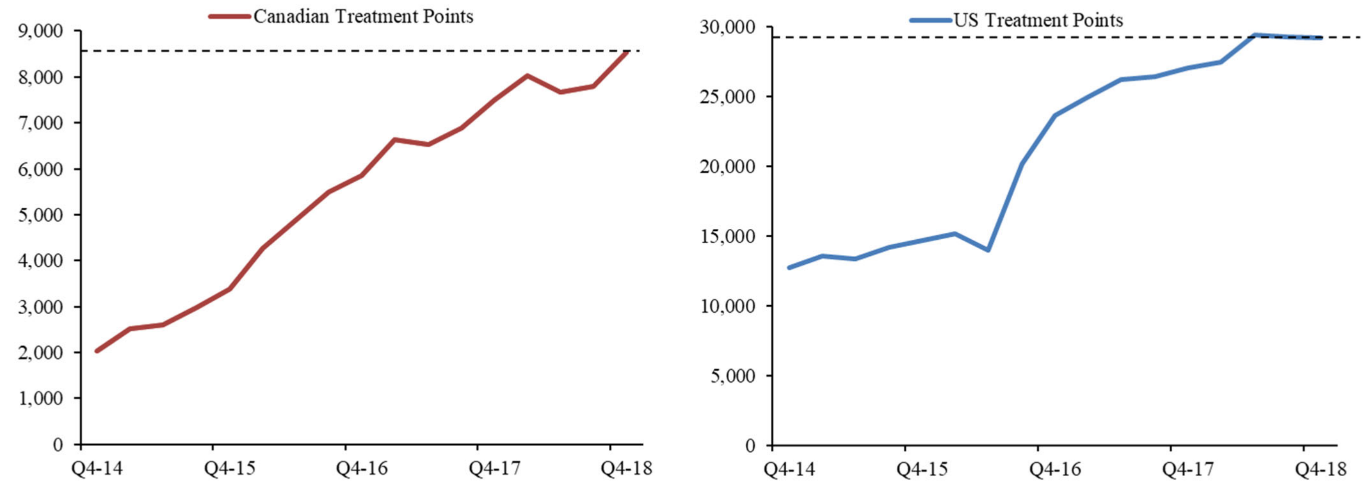
Notes:
[1] *Refer to "Operational Definitions" for further detail.*
[2] *Based on the monthly average of Baker Hughes published weekly land data for the United States in the referenced period.*
[3] *Based on the monthly average of CAODC published weekly data for Western Canada in the referenced period.*

Both Q4 2018 and annual 2018 revenue generated in the US are the highest US revenues in the Company's history exceeding the previous records of $227.1 million in Q3 2018 and annual revenue of $652.0 million in 2017. The increase in revenue for both respective periods is as a result of the improved market conditions in 2018 with significant activity improvement in the drilling fluids business which outpaced the respective improvements in US industry rig counts, as the Company was able to grow its US DF Market Share in 2018 versus 2017. US Treatment Points have increased by 8% and 10% for the three and twelve months ended December 31, 2018 versus the comparative 2017 periods. As evidenced in the table above, US revenue growth in production chemical and drilling fluids outpaced respective growth in treatment points and rig activity. In addition, the Company's US source revenues were positively impacted by the appreciation of the USD versus the CAD in Q4 2018, compared to Q4 2017.

Revenue generated in Canada increased 8% and 12% to $108.2 million and $423.2 million for the three and twelve months ended December 31, 2018, respectively, over the 2017 comparative periods. PureChem contributed the majority of this increase for the three and twelve months ended December 31, 2018 versus the comparative periods in prior year, as it continued to increase market share in Canada in the production chemicals business. Canadian Treatment Points for Q4 2018 have increased 14% from the comparative period. Sequentially, Canadian Treatment Points increased by 9% in Q4 2018 compared to Q3 2018, as growth that was muted in the prior quarter as a result of weather related conditions in September was caught up in October. Revenues and Average Rig Count in CES' drilling fluids business in Canada decreased in Q4 2018 compared to Q4 2017, due to decreased activity in the period, as oil and gas operators pared back capital spending and drilling programs during Q4 2018 in reaction to heightened market uncertainty and record high price differentials. Q4 2018 Canadian DF Market Share decreased compared to Q4 2017, as did year to date Canadian DF Market Share. The year-over-year decrease in the Company's Canadian DF Market Share is reflective of the shift in WCSB activity to shallower, oilier drilling, which is generally simpler to drill and lower revenue work, which historically has not been the main focus of CES' Canadian Drilling Fluids business. 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.

As evidenced by the graphs below, US Treatment Points have historically trended upwards as Catalyst and JACAM have gained market share. Excluding the annual Q2 seasonality effect, Canadian Treatment Points have also trended upwards as PureChem continues to gain market share in the production and specialty chemical market.

Quarterly Treatment Points



Included in revenue generated in Canada for the three and twelve months ended December 31, 2018, is $3.1 million and $10.8 million, respectively, (2017 – $2.3 million and $10.8 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. Clear provides environmental consulting, water management and water transfer services, as well as drilling fluids waste disposal services. With a variety of services, revenue can fluctuate with exposure to large scale and short duration jobs. 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.

For the three and twelve months ended December 31, 2018, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	**2018**	2017
Top five customers as a % of total revenue	**26.3%**	26.0%	**25.3%**	28.0%
Top customer as a % of total revenue	**10.3%**	10.0%	**11.2%**	12.0%

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, although a significant component of cost of sales, 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 Gross Margin (excluding depreciation) for the three and twelve months ended December 31, 2018 and 2017 are as follows:

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2018**	2017	Change	**2018**	2017	Change
Gross Margin	**69,702**	67,606	2,096	**284,263**	249,801	34,462
as a percentage of revenue	**20.0%**	24.2%	(4.2%)	**22.4%**	24.3%	(1.9%)
Add back (deduct):						
Depreciation included in cost of sales	**11,576**	10,637	939	**41,285**	38,136	3,149
Gross Margin (excluding depreciation)	**81,278**	78,243	3,035	**325,548**	287,937	37,611
as a percentage of revenue	**23.4%**	28.1%	(4.7%)	**25.6%**	28.0%	(2.4%)

Gross Margin in Q4 2018 was affected by reduced drilling activity in Canada that resulted in a decline in activity levels and corresponding lower revenue was over the same fixed cost base. Additionally, Gross Margin was negatively impacted by severance costs relating to strategic restructuring of PureChem in the amount of $0.3 million for the three and twelve months ended December 31, 2018. During 2018, cost inflation has outpaced the combination of CES' operating leverage gains and CES' current ability to pass cost increases through to customers. CES believes that as it increases sales in areas such as the Permian and the Deep Basin, CES will realize improved operating leverage from its expanded infrastructure, and its innovative technologies and superior service culture should improve margins going forward.

General and Administrative Expenses ("G&A")
The table below details the calculation of Adjusted General and Administrative Costs included in general and administrative expenses under IFRS, which management believes is a more meaningful measure of the general and administrative expenses affecting CES' profitability, as it excludes non-cash charges such as stock-based compensation and depreciation as well as specific items that are considered to be non-recurring in nature.

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2018**	2017	Change	**2018**	2017	Change
General and administrative expenses	**51,163**	48,112	3,051	**210,926**	183,638	27,288
as a percentage of revenue	**14.7%**	17.3%	(2.6%)	**16.6%**	17.8%	(1.2%)
Add back (deduct):						
Stock-based compensation	**5,304**	5,316	(12)	**27,262**	22,855	4,407
Depreciation & amortization	**5,928**	6,391	(463)	**22,528**	26,895	(4,367)
Management transition costs	**360**	-	360	**2,810**	-	2,810
Restructuring costs	**66**	-	66	**66**	-	66
Adjusted General and Administrative Costs	**39,506**	36,405	3,101	**158,261**	133,888	24,373
as a percentage of revenue	**11.4%**	13.1%	(1.7%)	**12.5%**	13.0%	(0.6%)

On an absolute basis, general and administrative expenses increased for both respective periods, which is attributable to increased headcounts and compensation levels largely attributable to growth of the business resulting from increased industry activity as well as general corporate cost increases. Further, negatively impacting general and administrative costs in the current quarter is the impact of the stronger USD versus CAD on the translation of US source general and administrative costs when compared to Q4 2017. As activity levels increase, it is expected that general and administrative expenses will continue to rise as the Company adds headcount to address the needs of its growing business and as the Company experiences some cost inflation.

As a percentage of revenue, general and administrative expenses have decreased for both the three and twelve month periods ending December 31, 2018, as a result of the fixed costs of managing the business being distributed over a larger revenue base.

On an absolute basis, depreciation decreased for both respective periods as a result of intangible assets relating to two previous acquisitions being fully amortized during H1 2018. Stock based compensation in 2018 increased on an absolute basis due to timing of equity grants and forfeitures in the respective periods.

Finance Costs
For the three and twelve months ended December 31, 2018 and 2017, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2018**	2017	**2018**	2017
Foreign exchange loss (gain)	**444**	(194)	**396**	(862)
Financial derivative (gain) loss	**(76)**	(297)	**(1,485)**	1,744
Amortization of debt issue costs and premium	**327**	333	**1,275**	1,273
Interest on debt, net of interest income	**7,430**	7,848	**26,100**	26,294
Other finance costs	**37**	11,578	**73**	11,747
	8,162	19,268	**26,359**	40,196

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2018 include a realized and unrealized net foreign exchange loss totalling $0.4 million, and $0.4 million, respectively (2017 – net gain of $0.2 million and $0.9 million, respectively). The net foreign exchange loss during the twelve months ended December 31, 2018 is primarily related to foreign exchange losses on the Company's USD denominated receivable and net draw balances held in Canada.

Derivative gains and losses
Finance costs for the three and twelve months ended December 31, 2018, included a realized and unrealized net derivative gain totalling $0.08 million and $1.5 million, respectively (2017 – net gain of $0.3 million and net loss of $1.7 million, respectively), relating to the Company's foreign currency derivative contracts. As of December 31, 2018, the Company had a financial derivative asset of net $0.3 million relating to its outstanding derivative contracts (December 31, 2017 – net liability of $0.5 million).

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, 2018, 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 operations:

Period	**Notional Balance USD$000s**	**Contract Type**	**Settlement**	**Average USDCAD Exchange Rate**
January 2019	US$1,000	Deliverable Forward	Physical Purchase	$1.2286
February 2019	US$1,000	Deliverable Forward	Physical Purchase	$1.2285
Total	US$2,000			$1.2286

Interest expense
Finance costs for the three and twelve months ended December 31, 2018 include interest on debt, net of interest income, of $7.4 million and $26.1 million, respectively (2017 – $7.8 million and $26.3 million, respectively). With respect to interest costs, year-over-year, CES has increased the net draw on the Senior Facility to meet rising working capital demands as the Company grows. The increased draw, along with a rise in short-term interest rates has increased interest costs related to its Senior Facility. The increased interest costs on the Senior Facility have been offset by the decreased cost of borrowing related to the Senior Notes which were refinanced in 2017 at a reduced coupon of 6.375% and are termed out to October 2024. Total interest expense relating to the Company's Senior Notes during the three and twelve months ended was $5.2 million and $20.3 million respectively, as compared to $6.5 million and $22.5 million, respectively, in the 2017 periods. Further details are outlined in the Liquidity and Capital Resources section of this MD&A.

Other Income
During the year ended December 31, 2018, the Company received proceeds on property insurance claims in the amount of $6.5 million, resulting in the recognition of a gain of $4.9 million in excess of the net book value of property and equipment de-recognized at the time of the claim.

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, 2018 and 2017, income tax (recovery) expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2018**	2017	**2018**	2017
Current income tax expense (recovery)	**1,109**	(1,965)	**3,829**	(5,033)
Deferred income tax (recovery) expense	**(1,431)**	(489)	**79**	(5,156)
Total income tax (recovery) expense	**(322)**	(2,454)	**3,908**	(10,189)

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 did 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 current and deferred income tax.

The year-over-year increase in current income tax expense is primarily related to the reversal of the accrual on the Conversion in 2017 and increased operating income in 2018. The year-over-year increase in deferred income tax expense is primarily due to a recognition of additional US and Canadian tax losses in 2018 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
CES continues to maintain a prudent balance sheet with positive net working capital of $420.4 million as at December 31, 2018 (December 31, 2017 – $350.5 million). This increase in net working capital is primarily attributable to record revenue levels increasing accounts receivable and inventory levels, which is more pronounced in the US as activity levels continue to rise.

The increase in working capital from December 31, 2017 is comprised of the following: a $60.9 million increase in inventory, a $25.2 million increase in accounts receivable, a $0.8 million increase in prepaid expenses, offset by a $12.4 million increase in accounts payable, a $6.4 million increase in current portion of finance lease obligations, and a $0.7 million increase in dividends payable. At December 31, 2018, the Company had Net Debt of $53.6 million as compared to $63.9 million at December 31, 2017. Refer to the "Non-GAAP Measures" for further details on the calculation of Net Debt.

Total Long-Term Assets
Year-over-year, total long-term assets of CES increased by $93.9 million to $756.8 million at December 31, 2018 up from $662.9 million at December 31, 2017. This increase in long-term assets partially attributed to the Company's USD denominated long-term assets which were positively impacted by the appreciation of the USD versus the CAD on December 31, 2018, compared to December 31, 2017.

Long-Term Financial Liabilities
CES had long-term debt totalling $455.6 million at December 31, 2018, compared to $402.4 million at December 31, 2017, an increase of $53.2 million. The increase in long-term debt is primarily as a result of the working capital build referred to above, the capital expansion incurred in the quarter, which includes the completion of PureChem's Grande Prairie facility and the continued buildout of the Kermit mud plant in the Permian Basin and opportunistic share repurchases through CES' NCIB program.

Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

Shareholders' Equity
Shareholders' equity increased by $104.4 million from $593.2 million at December 31, 2017 to $697.6 million at December 31, 2018. The increase in shareholders' equity is primarily attributable to the $47.7 million net income for the period, $27.3 million in contributed

surplus related to stock-based compensation expense, $15.6 million relating to the issuance of equity under the Company's stock-based compensation plans, and a $60.1 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries as USD strengthened from December 31, 2017 to December 31, 2018. The increase was offset by $19.5 million of common shares repurchased and cancelled through the NCIB, $12.7 million of dividends declared by the Company during the period, and $14.2 million reclassified from contributed surplus for stock-based compensation plans.

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, 2018, remuneration of $11.4 million included $8.2 million of salaries and cash-based compensation and $3.2 million of stock-based compensation costs (December 31, 2017 – $8.7 million and $3.0 million, respectively). During the twelve months ended December 31, 2018, in respect of CFO-related management transition in the period, the Company recorded general and administrative expenses of $2.7 million and stock-based compensation expense of $0.7 million.

During the twelve months ended December 31, 2018, CES bought property and equipment with an approximate fair value $0.3 million from an executive officer of the Company, and from companies controlled by the respective executive officer, for a purchase price of $0.3 million. For the twelve months ended December 31, 2018, CES also paid rent of $0.1 million to an executive officer of the Company for use of a temporary rental property. 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, 2018**	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue	**347,905**	338,511	284,317	300,318
Gross Margin	**69,702**	75,949	68,007	70,605
Net income	**15,467**	5,859	13,159	13,250
per share– basic	***0.06***	*0.02*	*0.05*	*0.05*
per share– diluted	***0.06***	*0.02*	*0.05*	*0.05*
Adjusted EBITDAC(1)	**42,074**	45,550	37,477	42,490
per share– basic	***0.16***	*0.17*	*0.14*	*0.15*
per share– diluted	***0.15***	*0.17*	*0.14*	*0.15*
Dividends declared	**3,994**	4,012	2,691	2,010
per share	***0.0150***	*0.0150*	*0.0100*	*0.0075*
Shares Outstanding				
End of period	**265,886,609**	267,791,315	269,391,188	268,424,065
Weighted average – basic	**266,932,999**	268,119,617	268,800,776	268,178,300
Weighted average – diluted	**273,294,794**	275,502,020	276,608,303	274,569,434

	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*
Adjusted EBITDAC(1)	41,838	40,717	34,879	36,615
per share– basic	*0.16*	*0.15*	*0.13*	*0.14*
per share– diluted	*0.15*	*0.14*	*0.13*	*0.13*
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

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)	**2018**	% Change	2017	% Change	2016
Revenue					
United States	**847,841**	30%	651,983	75%	371,816
Canada	**423,210**	12%	377,657	93%	195,910
Total Revenue	**1,271,051**	23%	1,029,640	81%	567,726
Gross margin	**284,263**	14%	249,801	123%	111,781
Gross margin percentage of revenue	**22.4%**		24.3%		20%
Income (loss) before taxes	**51,643**	98%	26,052	(144%)	(59,056)
per share – basic	***0.19***	*90%*	*0.10*	*(142%)*	*(0.24)*
per share - diluted	***0.19***	*90%*	*0.10*	*(142%)*	*(0.24)*
Net income (loss)	**47,735**	32%	36,241	(156%)	(64,550)
per share – basic	***0.18***	*29%*	*0.14*	*(152%)*	*(0.27)*
per share - diluted	***0.17***	*31%*	*0.13*	*(148%)*	*(0.27)*
Adjusted EBITDAC [2]	**167,589**	9%	154,049	238%	45,626
per share – basic	***0.63***	*9%*	*0.58*	*205%*	*0.19*
per share - diluted	***0.61***	*9%*	*0.56*	*195%*	*0.19*
Dividends declared	**12,707**	59%	7,982	(26%)	10,736
per share	***0.0475***	58%	*0.0300*	*(34%)*	*0.0455*

	As At December 31,				
Financial Position ($000's)	**2018**	% Change	2017	% Change	2016
Net working capital	**420,394**	20%	350,475	58%	222,323
Total assets	**1,321,809**	16%	1,140,667	17%	978,959
Long-term financial liabilities [1]	**473,980**	14%	414,384	35%	306,267
Net Debt [2]	**53,586**	(16%)	63,909	(24%)	83,944
Shareholders' equity	**697,570**	18%	593,198	4%	568,837

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

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**December 31, 2018**	December 31, 2017
Senior Facility	**162,036**	109,926
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**300,000**	300,000
	462,036	409,926
Less: net unamortized debt issue costs	**(6,445)**	(7,505)
Long-term debt	**455,591**	402,421

Senior Facility

On November 8, 2018, the Company amended its Senior Facility to exercise $55.0 million of available accordion capacity, increasing the maximum amount available on the Canadian facility from $125.0 million to $180.0 million in addition to the US$40.0 million facility. All other terms and conditions of the Senior Facility remain unchanged. In early 2016, CES took a voluntary reduction in the amount of $50.0 million on the maximum borrowing amount on its Canadian facility, which provided adequate liquidity during the downturn as working capital returned to the balance sheet in the form of cash. As activity levels rebounded and market conditions improved, this $55.0 million increase in availability on the Senior Facility addresses the needs of the Company's growing business.

As at December 31, 2018, the Company has a syndicated Senior Facility which is comprised of a Canadian facility of $180.0 million and a US facility of US$40.0 million. The Senior Facility matures on September 28, 2020, and may be extended by one year upon agreement of the lenders and the Company. 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.

As at December 31, 2018, the maximum available draw on the Senior Facility was $180.0 million on the Canadian facility and US$40.0 million on the US facility. As at December 31, 2018, the Company had a net draw of $161.5 million on the Senior Facility (December 31, 2017 – $109.3 million), with capitalized transaction costs of $0.5 million (December 31, 2017 – $0.7 million). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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 calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00, calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms as set forth in the 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 at December 31, 2018 and 2017, are as follows:

	As at	
$000s	**December 31, 2018**	December 31, 2017
Net Senior Debt	**197,221**	130,376
EBITDA for the four quarters ended	**166,012**	152,414
Ratio	**1.188**	0.855
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**166,012**	152,414
Interest Expense for the four quarters ended	**26,033**	26,366
Ratio	**6.377**	5.781
Minimum	**2.500**	2.500

Senior Notes

On October 20, 2017, the Company 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, which were due April 17, 2020. The redemption date in respect of the 7.375% Senior Notes was November 18, 2017, (the "Redemption Date") and the redemption price totaling $313.0 million, made up of principal ($300.0 million), accrued and unpaid interest ($1.9 million), and applicable redemption premium ($11.1 million) was due and payable on the Redemption Date.

At December 31, 2018, the Company had $300.0 million of outstanding principal on unsecured senior notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable on the Senior Notes semi-annually on April 21st and October 21st. 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. 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 December 31, 2018, the Company was in compliance with the terms and covenants of its lending agreements.

Finance Leases
During the year ended December 31, 2018, the Company completed sale and leaseback transactions on specified assets for proceeds equal to the net book value of the respective assets in the amount of $3.6 million. The leases are for a period of 36 months, terminating by October 2021, and have a fixed interest rate of 4.65%.

In addition to the above, CES has vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.50%, and have termination dates ranging from February 2019 through March 2022. At December 31, 2018, outstanding vehicle and equipment finance lease obligations totalled $33.1 million as compared to $19.9 million at December 31, 2017, representing a total increase of $13.2 million.

Future minimum lease payments outstanding under the Company's finance lease obligations as at December 31, 2018 are as follows:

$000s	
Less than 1 year	**16,284**
1-5 years	**19,092**
5+ years	**-**
Total lease payments	**35,376**
Amount representing implicit interest	**(2,280)**
Finance lease obligations	**33,096**
Less: current portion of finance lease obligations	**(14,857)**
Long-term finance lease obligations	**18,239**

During the three and twelve months ended December 31, 2018, the Company made long-term scheduled debt and lease repayments totalling $3.8 and $11.4 million on its finance leases.

Other Indebtedness
The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2018:

	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	125,149	-	-	-	-	**125,149**
Dividends payable (2)	1,329	-	-	-	-	**1,329**
Income taxes payable	-	2,892	-	-	-	**2,892**
Deferred acquisition consideration	370	-	150	-	-	**520**
Senior Notes (3)	-	-	-	-	300,000	**300,000**
Interest on Senior Notes	-	19,125	19,125	57,375	19,125	**114,750**
Finance lease obligations at fixed interest rates (4)	202	1,035	1,305	1,979	-	**4,521**
Finance lease obligations at floating interest rates (4)	2,245	11,375	10,953	4,002	-	**28,575**
Office and facility rent, and other	1,873	7,989	7,790	12,657	12,441	**42,750**
	131,168	42,416	39,323	76,013	331,566	**620,486**

Notes:
1 Payments denominated in foreign currencies have been translated using the December 31, 2018 exchange rate.
2 Dividends declared as of December 31, 2018.
3 The Senior Notes are due on October 21, 2024.
4 Finance lease obligations reflect principal payments and excludes any associated interest portion.

CES continues to maintain a prudent balance sheet with positive net working capital of $420.4 million as at December 31, 2018 (December 31, 2017 – $350.5 million). At December 31, 2018, the Company had Net Debt of $53.6 million, a decrease from $63.9 million at December 31, 2017. Although total indebtedness has increased in 2018, 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, this increase is offset by the growth in working capital in the year.

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.

Summary of Statements of Cash Flows
The following table summarizes the Company's Statements of Cash Flows for the three and twelve months ended December 31, 2018 and 2017:

	Three Months Ended December 31,			Year Ended December 31,		
$000's	**2018**	2017	Change	**2018**	2017	Change
Net cash provided by (used in)						
Operating Activities	**16,203**	25,567	(9,364)	**77,598**	(23,291)	100,889
Investing Activities	**(11,504)**	(21,167)	9,663	**(85,585)**	(69,126)	(16,459)
Financing Activities	**(4,700)**	(4,399)	(301)	**7,986**	79,027	(71,041)

Cash Flows from Operating Activities
For the three months ended December 31, 2018, cash flow from operating activities was an inflow of $16.2 million, compared to an inflow of $25.6 million during the three months ended December 31, 2017, with the decrease being primarily driven by increased working capital build up of $15.5 in Q4 2018 compared to working capital build up of $9.9 million in Q4 2017 resulting from higher

revenues, offset by increased net income during the three months ended December 31, 2018 of $15.5 million compared to $2.7 million for the same period in 2017.

Cash Flows from Investing Activities
For the three months ended December 31, 2018, net cash outflows from investing activities totalled $11.5 million, as compared to the outflow of $21.2 million from investing activities during the three months ended December 31, 2017, primarily as a result of insurance proceeds received on property insurance claims in Q4 2018 in the amount of $6.5 million. Details of investment made in property and equipment are as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2018**	2017	**2018**	2017
Expansion Capital [(1)]	**22,773**	15,969	**79,616**	52,844
Maintenance Capital [(1)]	**5,532**	4,510	**25,103**	19,055
Other capital expenditures [(2)]	**277**	2,486	**5,635**	5,294
Total investment in property and equipment	**28,582**	22,965	**110,354**	77,193
Insurance proceeds on replacement property and equipment	**(6,470)**	-	**(6,470)**	(1,475)
Asset financing and leases	**(8,643)**	(3,937)	**(23,363)**	(15,338)
Capital expenditures	**13,469**	19,028	**80,521**	60,380
Change in non-cash investing working capital	**(1,243)**	2,279	**(3,930)**	239
Cash used for investment in property and equipment	**12,226**	21,307	**76,591**	60,619

Notes:
[1]*Refer to the "Operational Definitions" for further detail.*
[2]*Other capital expenditures include amounts incurred which are fully insured.*

For the three months ended December 31, 2018, $18.7 million of cash was used for investment in property and equipment (excluding the net effect of insurance proceeds on replacement property and equipment) compared to $21.3 million for the three months ended December 31, 2017. For the twelve months ended December 31, 2018, $83.1 million of cash was used for investment in property and equipment (excluding the net effect of insurance proceeds on replacement property and equipment) compared to $62.1 million for the twelve months ended December 31, 2017.

Notable Expansion Capital expenditures in Q4 2018 include: $3.9 million for PureChem's buildout costs relating to the Grande Prairie facility for blending and storage of production chemicals, US$2.9 million for the Kermit mud plant expansion in the Permian Basin, US$0.9 million for initial equipment and construction design costs relating to the buildout of the northeast US barite grinding facility and US$2.8 million of fleet additions, lab equipment, field equipment and warehouse equipment to support higher production chemical activity levels and associated headcount in the US.

Notable Maintenance Capital additions during the quarter ended December 31, 2018 include: $4.1 million for vehicles, for which the majority were financed through lease arrangements, $0.6 million for trucks and trailers, $0.8 million for warehouse and facilities, and $0.3 million for other maintenance additions. The increase in maintenance capital in Q4 2018 over prior year is primarily due to timing for the replacement of vehicles, in accordance with the Company's fleet policies.

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 2019, CES expects non-acquisition related capital expenditures, including property & equipment financed through leasing arrangements, to be approximately $60.0 million, of which an estimated $20.0 million will be maintenance capital additions, and an estimated $40.0 million will be for expansion capital additions. Included in the estimate for expansion capital additions are the following 2019 amounts for significant projects: US$2.3 million relating to the completion of the expansion and addition of rail siding for the Kermit mud plant in the Permian Basin, and US$8.8 million relating to the buildout of a northeast US barite grinding facility.

Cash Flows from Financing Activities
For the three months ended December 31, 2018, cash flows from financing activities was an outflow of $4.7 million compared to $4.4 million in Q4 2017. This year-over-year change is primarily due to the cash outflows relating to the Senior Notes refinancing in the prior year, offset by the repurchasing and cancellation of common shares through NCIB, increases in the Company's dividend payments and increased draws on the Senior Facility in Q4 2018 versus Q4 2017.

CES calculated Distributable Earnings based on Cash provided by operating activities, and the Dividend Payout Ratio based on the level of dividends declared as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2018**	2017	**2018**	2017
Cash provided by operating activities	**16,203**	25,567	**77,598**	(23,291)
Adjust for:				
Change in non-cash operating working capital	**15,515**	9,930	**55,133**	153,455
Less: Maintenance Capital [2]	**(5,532)**	(4,510)	**(25,103)**	(19,055)
Distributable Earnings [1]	**26,186**	30,987	**107,628**	111,109
Dividends declared	**3,994**	2,009	**12,707**	7,982
Dividend Payout Ratio [1]	**15.3%**	6.5%	**11.8%**	7.2%

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

Dividend Policy
The Company declared dividends to holders of common shares for the twelve months ended December 31, 2018, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.0025	**669**
February	Feb 28	Mar 15	$0.0025	**670**
March	Mar 30	Apr 13	$0.0025	**671**
April	Apr 30	May 15	$0.0025	**672**
May	May 31	June 15	$0.0025	**672**
June	June 29	July 13	$0.0050	**1,347**
July	July 31	Aug 15	$0.0050	**1,338**
August	Aug 31	Sept 14	$0.0050	**1,335**
September	Sept 28	Oct 15	$0.0050	**1,339**
October	Oct 31	Nov 15	$0.0050	**1,334**
November	Nov 30	Dec 14	$0.0050	**1,331**
December	Dec 31	Jan 15	$0.0050	**1,329**
Total dividends declared during the year			$0.0475	**12,707**

On June 14, 2018, CES doubled its monthly cash dividend from $0.0025 per share to $0.005 per share. During Q4 2018, CES declared dividends totalling $0.015 per share as compared to $0.0075 per share for Q4 2017 as a result of this dividend increase. During Q4 2018, the Company's Dividend Payout Ratio averaged 15.3% as compared to 6.5% in Q4 2017.

Subsequent to December 31, 2018, the Company declared dividends to holders of common shares in the amount of $0.005 per common share paid on February 15, 2019 and March 15, 2017, for shareholders of record on January 31, 2019 and February 28, 2019, 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.

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, among other considerations, the applicable solvency requirements under corporate legislation; current and anticipated industry conditions; and, particularly, growth opportunities requiring Expansion Capital, management's forecast of Distributable Earnings, its forecasted Dividend Payout Ratio, and forecasted capital to be deployed under its NCIB. 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 backs under CES' NCIB program 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 or through share-buy backs 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.

Shareholders' Equity
CES continues to see improvement in its financial position and the Company's Board of Directors and management believe that the market price of CES' common shares do not reflect their underlying value. As such, on July 17, 2018, the Company began a normal course issuer bid ("NCIB") to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. As of December 31, 2018, the Company has repurchased 4,799,900 common shares at an average price of $4.07 per share for a total amount $19.5 million, representing 19.5% of total shares available to repurchase.

As at December 31, 2018, CES had a total of 265,886,609 common shares outstanding. As of the date of this MD&A, CES had a total of 265,983,068 common shares outstanding.

Stock-based Compensation
As at December 31, 2018, a total of 26,558,661 common shares were reserved for issuance under the Company's Restricted Share Unit Plan, Share Rights Incentive Plan, and Stock Settled Director Fee Program, of which 7,987,534 common shares remained available for grant.

a) Share Rights Incentive Plan ("SRIP")
At December 31, 2018, a total of 12,333,645 Share Rights were outstanding (December 31, 2017 – 14,875,400) at a weighted average exercise price of $6.29 (assuming all SRIP's are exercised at their respective original exercise price) of which 8,913,245 were exercisable. As of the date of this MD&A, an aggregate 11,996,445 Share Rights remaining outstanding, of which 8,634,845 are exercisable.

b) Restricted Share Unit Plan ("RSU")
At December 31, 2018, a total of 6,267,482 Restricted Share Units were outstanding (December 31, 2017 – 4,706,493) at a weighted average issuance price of $6.03, none of which have vested. As of the date of this MD&A, an aggregate of 6,134,446 Restricted Share Units remain outstanding.

Commitments and Contingencies
At December 31, 2018, CES had the following additional commitments not included as liabilities on its statement of financial position:

$000s	
Less than 1 year	9,862
1-5 years	20,447
5+ years	12,441
Office and facility rent, and other	**42,750**

Payments denominated in foreign currencies have been translated using the December 31, 2018 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.

NON-GAAP MEASURES

Changes to Non-GAAP Measures
During the fiscal period ending June 30, 2018, the Company has made changes relating to its non-GAAP measures, including the composition and labelling of the following non-GAAP measures as previously reported. Both current and prior period comparative non-GAAP measures have been restated throughout this MD&A for the following changes:

EBITDAC
The Company no longer includes the impact of realized foreign exchange gains and losses, as well as realized derivative gains and losses. This non-GAAP measure has been adjusted to exclude all finance costs, as management believes this provides a better indication of the results generated by the Company's business activities prior to how these activities are financed, and how the Company is impacted by foreign exchange and non-cash charges. The Company continues to label this non-GAAP measure *"EBITDAC"*.

Cash Gross Margin
The Company has changed the composition of its previously reported non-GAAP measure "Cash Gross Margin" to no longer exclude gains and losses on disposals of assets, which are non-cash charges. As such, the Company has re-labelled this non-GAAP measure as "Gross Margin (excluding depreciation)" to accurately reflect this change.

Cash General and Administrative Costs
The Company has re-labelled its previously reported non-GAAP measure "Cash General & Administrative Costs" as "Adjusted General & Administrative Costs" in order to avoid any potential confusion in the composition of the non-GAAP measure.

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. This MD&A does not discuss previously used non-GAAP measures Cash Gross Margin and Cash General and Administrative Costs. The non-GAAP measures used in this MD&A, combined with IFRS measures, are the most appropriate measures for reviewing and understanding the Company's financial results.

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

EBITDAC – is a non-GAAP term that has been reconciled to net income (loss) for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. EBITDAC is defined as net income before interest, taxes, depreciation and amortization, finance costs, other income (loss) and stock-based compensation, which are not reflective of underlying operations. EBITDAC is a metric used to assess the financial performance of an entity's operations. Management believes that this metric provides an indication of the results generated by the Company's business activities prior to how these activities are financed, how the Company is taxed in various jurisdictions, and how the results are impacted by foreign exchange and non-cash charges. This non-GAAP financial measure is also used by management as a key performance metric supporting decision making and assessing divisional results, and is used in the Company's covenant calculations for its Senior Facility (Net Senior Debt to trailing EBITDA and EBITDA to interest expense).

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2018**	2017	**2018**	2017
Net income	**15,467**	2,681	**47,735**	36,241
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**11,576**	10,637	**41,285**	38,136
Depreciation on property and equipment in G&A	**1,419**	1,212	**5,247**	5,173
Amortization on intangible assets in G&A	**4,509**	5,179	**17,281**	21,722
Current income tax expense (recovery)	**1,109**	(1,965)	**3,829**	(5,033)
Deferred income tax (recovery) expense	**(1,431)**	(489)	**79**	(5,156)
Stock-based compensation	**5,304**	5,316	**27,262**	22,855
Finance costs	**8,161**	19,268	**26,359**	40,196
Other income	**(4,767)**	(1)	**(4,665)**	(85)
EBITDAC	**41,347**	41,838	**164,412**	154,049

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2018**	2017	**2018**	2017
EBITDAC	**41,347**	41,838	**164,412**	154,049
Add back (deduct):				
Management transition costs	**360**	-	**2,810**	-
Restructuring costs	**367**	-	**367**	-
Adjusted EBITDAC	**42,074**	41,838	**167,589**	154,049

Distributable Earnings – is defined as Cash provided by operating activities, adjusted for the change in non-cash operating working capital 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 as dividends or through the NCIB program before consideration of funds required for growth purposes.

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

Gross Margin (excluding depreciation) – is a non-GAAP term that has been reconciled to Gross Margin for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. It represents Gross Margin under IFRS adjusted to exclude depreciation included in cost of sales as it relates to assets associated with operations and operating related activities. Management believes that this metric assists in determining CES' profitability prior to charges for depreciation. This non-GAAP financial measure is also used by management to quantify the operating costs inherent in the Company's business activities, prior to operational related depreciation.

Gross Margin (excluding depreciation) is calculated as follows:

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2018**	2017	Change	**2018**	2017	Change
Gross Margin	**69,702**	67,606	2,096	**284,263**	249,801	34,462
as a percentage of revenue	**20.0%**	24.2%	(4.2%)	**22.4%**	24.3%	(1.9%)
Add back (deduct):						
Depreciation included in cost of sales	**11,576**	10,637	939	**41,285**	38,136	3,149
Gross Margin (excluding depreciation)	**81,278**	78,243	3,035	**325,548**	287,937	37,611
as a percentage of revenue	**23.4%**	28.1%	(4.7%)	**25.6%**	28.0%	(2.4%)

Adjusted General & Administrative Costs – is a non-GAAP term that has been reconciled to General and Administrative expenses for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. It 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, as well as adjusted for specific items that are considered to be non-recurring in nature. Management believes that this metric assists in demonstrating CES' profitability prior to non-cash charges, such as depreciation and amortization and stock based compensation, as well as non-recurring items. This non-GAAP financial measure is also used by management to quantify the administrative costs incurred in managing the Company's business activities prior to certain non-cash charges such as stock-based compensation and non-operational related depreciation

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2018**	2017	Change	**2018**	2017	Change
General and administrative expenses	**51,163**	48,112	3,051	**210,926**	183,638	27,288
as a percentage of revenue	**14.7%**	17.3%	(2.6%)	**16.6%**	17.8%	(1.2%)
Add back (deduct):						
Stock-based compensation	**5,304**	5,316	(12)	**27,262**	22,855	4,407
Depreciation & amortization	**5,928**	6,391	(463)	**22,528**	26,895	(4,367)
Management transition costs	**360**	-	360	**2,810**	-	2,810
Restructuring costs	**66**	-	66	**66**	-	66
Adjusted General and Administrative Costs	**39,506**	36,405	3,101	**158,261**	133,888	24,373
as a percentage of revenue	**11.4%**	13.1%	(1.7%)	**12.5%**	13.0%	(0.6%)

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	
$000's	**December 31, 2018**	December 31, 2017
Long-term financial liabilities[1]	**473,980**	414,384
Current portion of finance lease obligations	**14,857**	8,413
Total indebtedness	**488,837**	422,797
Deduct working capital surplus:		
Current assets	**564,991**	477,809
Current liabilities[2]	**(129,740)**	(118,921)
Working capital surplus	**435,251**	358,888
Net Debt	**53,586**	63,909

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 liabilities*

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.

Average Rig Count – For its drilling fluids operations, CES estimates its Average Rig Count which is the average monthly number of active rigs where CES was providing drilling fluids in the referenced 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.

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 condensed 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 Cost Generating Units ("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 and the respective allocation of shared corporate carrying values 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 uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. 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 estimates to be made by management. These estimates include, but are not limited to, expected levels of activity within the oil and natural gas industry, 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, future activity levels within the oil and natural gas industry, current economic and market conditions, and potential changes in government regulations. Future activity cannot be predicted with certainty and, as such, actual results may differ from these estimates. Changes to these estimates, including continued downward pressure on the Canadian market, may affect the recoverable amounts of the Company's CGUs which may then require a material adjustment to their related carrying values.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

Newly adopted accounting standards

CES adopted IFRS 15, *"Revenue from Contracts with Customers"*, on January 1, 2018 using the modified retrospective method. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption. CES recognizes revenue as the Company satisfies the performance obligations with its customers over time as they consume oilfield chemical solutions. The Company has elected the practical expedient as permitted under IFRS 15 to measure progress towards satisfaction of its performance obligations based on the value of the Company's performance completed to date each reporting period. Transaction prices are determined based on the agreed upon prices with customers for CES' goods and services at the time contracts are entered into. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money, and expenses any incremental costs of obtaining contracts with customers as incurred, based on the practical expedients permitted under IFRS 15. The nature and timing of revenue recognized during the period has not changed as compared to amounts presented in the annual consolidated financial statements for the year ended December 31, 2017 and prior. CES disaggregates revenue by the geographies in which the Company operates, being the US and Canada.

CES retrospectively adopted IFRS 9, *"Financial Instruments",* on January 1, 2018. The adoption of the standard has not resulted in any changes to the classification or measurement of the Company's financial instruments. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, which are amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. Note 3(n) summarizes the changes to the Company's financial asset and liability classifications. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of CES' financial assets. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Company continues to monitor historical credit losses in the US and Canada each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS.

Future accounting policy changes

The International Accounting Standards Board issued IFRS 16, *"Leases"* which replaces IAS 17, "*Leases"* effective for fiscal years beginning on or after January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company plans to use the modified retrospective approach, which does not require restatement of prior period financial information, for its adoption of IFRS 16 effective January 1, 2019. Accordingly, comparative information in the Company's financial statements are not restated. The Company has elected to apply to practical expedients not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases with an underlying asset of low-value. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

On adoption of IFRS 16, CES has elected to record right-of-use assets based on the corresponding lease liability. A preliminary assessment indicates that right-of-use assets and corresponding lease liabilities of approximately $24.0 million will be recognized on January 1, 2019. Lease liabilities were measured at the present value of the remaining lease payments as at January 1, 2019 and discounted using the Company's incremental borrowing rate as of January 1, 2019.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures ("DC&P")

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' management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2018, 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, 2018, the disclosure controls and procedures were effective.

Internal Controls over Financial Reporting ("ICFR")

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' certifying officers, and effected by CES' 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' 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' 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' 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, 2018. Based on their assessment, Management determined that ICFR were effective as at December 31, 2018.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2018 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' 2018 Annual Report, CES' Annual Information Form dated March 12, 2019 in respect of the year ended December 31, 2018, and CES' Information Circular in respect to the June 14, 2018 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 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; pipeline takeaway capacity; outcomes of major LNG projects; 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.

From mid-2014 to early 2016, oil and natural gas prices fell dramatically, resulting in a significant decrease in the level of industry activity in the WCSB and the US. While oil and natural gas prices have steadily improved from the first quarter of 2016 and throughout most of 2018, a retracement of oil and natural gas prices to levels seen in early 2016 would likely affect oil and natural gas production levels and therefore reduce the demand for drilling and oilfield services by operators which could have a material adverse effect on CES' business, financial condition, results of operations and cash flows. In addition, in Canada 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. A continued decline in the Canadian market could result in adverse changes to the accounting estimates and judgements made with respect to the Company's assessment of goodwill impairment on its Canadian CGU. These additional risks in Canada could adversely affect CES' Canadian business.

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 or implemented by the Trump administration, including, but not limited to, the renegotiation of international trade agreements and the implementation of the newly announced Canada-United States-Mexico Agreement; the potential changes to US trade policies including as it relates to US trade with China; 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 amended its Senior Facility effective November 8, 2018 to exercise $55.0 million of available accordion capacity. However 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, 2018, 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. There can also be assurance that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. 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, pipeline takeaway capacity, 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, 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 a low oil and natural gas price environment persists, particularly with respect to pricing differentials affecting producers in the WCSB, 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.

Government regulations respecting greenhouse gas emissions and carbon pricing have or may be implemented in the jurisdictions in which CES operates. Recently, the Alberta Government has implemented a carbon levy and at the federal level, the Canadian government has implemented its carbon-pricing scheme, effective January 1, 2019, which 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. CES believe the Company has adequately provided for all income tax obligations. However, changes in facts, circumstances and interpretations as a result of income tax audits, reassessments, litigation with tax authorities, 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 12, 2019 for the year ended December 31, 2018, 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.

FORWARD-LOOKING INFORMATION & STATEMENTS

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. 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 and the ability of CES to manage seasonal activity swings; the certainty and predictability of future cash flows and earnings; management's proposed corporate strategy for the Company; ability of CES to manage overall fluctuations in demand for CES' products and services; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC or any other source; future estimates as to dividend levels; the potential means of funding dividends and the NCIB; 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 or other commitments not included as liabilities on its statement of financial position; 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 2019, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the repurchase of CES' common shares pursuant to the NCIB; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and AES 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; 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, expected growth in the consumable chemicals market, and the impact of such increased sales on operating leverage; impact of new drilling techniques, longer reach laterals and the increased intensity and size of hydraulic fracturing; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels including divergence in activity levels between Canada and the US; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of US tax reform; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime and production curtailment policies; expectations regarding the impact of governmental carbon pricing schemes; expectations regarding expansion of services in Canada and the US; development of new technologies; expectations regarding CES' growth opportunities in Canada and the US; the effect of acquisitions on the Company; 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; 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' 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 US, 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; a shift in types of wells drilled; 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, pricing in North America, and pricing in Canada; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the US 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 US policies including the potential for tax reform, possible renegotiation of international trade agreements and the implementation of the Canada-United States-Mexico Agreement; international and domestic trade disputes, including restrictions on the transportation of oil and natural gas; divergence in climate change policies between Canada and the US; 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; CES' ability to maintain adequate insurance at rates it considers reasonable and commercially justifiable; and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2018 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.

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 Company 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 Company 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 Company 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.

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' web site at www.cesenergysolutions.com.

Audited Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

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 12, 2019

"Anthony M. Aulicino"
Anthony M. Aulicino
Chief Financial Officer
March 12, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
CES Energy Solutions Corp.

Opinion

We have audited the consolidated financial statements of CES Energy Solutions Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net income and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 12, 2019

CES Energy Solutions Corp.

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

	As at	
	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Accounts receivable (note 20)	**311,222**	285,976
Financial derivative asset (note 20)	**270**	-
Income taxes receivable (note 15)	**1,561**	1,601
Inventory (note 5)	**238,503**	177,558
Prepaid expenses and deposits	**13,435**	12,674
	564,991	477,809
Property and equipment (note 6)	**360,963**	283,985
Intangible assets (note 7)	**77,143**	79,449
Deferred income tax asset (note 15)	**14,352**	13,437
Other assets (note 8)	**4,860**	7,521
Goodwill (note 7)	**299,500**	278,466
	1,321,809	1,140,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**125,149**	112,718
Financial derivative liability (note 20)	**-**	512
Dividends payable (note 18)	**1,329**	670
Income taxes payable (note 15)	**2,892**	471
Current portion of deferred acquisition consideration (note 4)	**370**	4,550
Current portion of finance lease obligations (note 10)	**14,857**	8,413
	144,597	127,334
Deferred acquisition consideration (note 4)	**150**	520
Long-term debt (note 9)	**455,591**	402,421
Finance lease obligations (note 10)	**18,239**	11,443
Deferred income tax liability (note 15)	**5,662**	5,751
	624,239	547,469
Commitments (note 19)		
Shareholders' equity		
Common shares (note 16)	**651,116**	655,028
Contributed surplus	**47,204**	34,142
Deficit	**(179,993)**	(215,021)
Accumulated other comprehensive income	**179,243**	119,049
	697,570	593,198
	1,321,809	1,140,667

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"	*"Philip J. Scherman"*
Thomas J. Simons	Philip J. Scherman
President & Chief Executive Officer and Director	*Director & Chairman, Audit Committee*

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

CES Energy Solutions Corp.

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

	Year Ended December 31,	
	2018	2017
Revenue	**1,271,051**	1,029,640
Cost of sales (note 11)	**986,788**	779,839
Gross margin	**284,263**	249,801
General and administrative expenses (note 12)	**210,926**	183,638
Operating profit	**73,337**	66,163
Finance costs (note 13)	**26,359**	40,196
Other income (note 14)	**(4,665)**	(85)
Income before taxes	**51,643**	26,052
Current income tax expense (recovery) (note 15)	**3,829**	(5,033)
Deferred income tax expense (recovery) (note 15)	**79**	(5,156)
Net income	**47,735**	36,241
Other comprehensive income (items that may be subsequently reclassified to profit and loss):		
Unrealized foreign exchange gain (loss) on translation of foreign operations	**60,148**	(44,340)
Change in fair value of other assets, net of tax	**46**	53
Comprehensive income (loss)	**107,929**	(8,046)
Net income per share (note 16)		
Basic	**0.18**	0.14
Diluted	**0.17**	0.13

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CES Energy Solutions Corp.

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

	Year Ended December 31,	
	2018	2017
COMMON SHARES		
Balance, beginning of year	**655,028**	622,665
Consideration for business combinations, net of issuance costs (note 4)	**-**	12,796
Issued pursuant to stock-based compensation (note 17)	**15,562**	19,541
Issued pursuant to stock settled director fee	**58**	26
Common shares repurchased and cancelled through NCIB (note 16)	**(19,532)**	-
Balance, end of year	**651,116**	655,028
CONTRIBUTED SURPLUS		
Balance, beginning of year	**34,142**	26,116
Reclassified pursuant to stock-based compensation (note 16)	**(14,200)**	(14,829)
Stock-based compensation expense (note 17)	**27,262**	22,855
Balance, end of year	**47,204**	34,142
DEFICIT		
Balance, beginning of year	**(215,021)**	(243,280)
Net income	**47,735**	36,241
Dividends declared (note 18)	**(12,707)**	(7,982)
Balance, end of year	**(179,993)**	(215,021)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**119,049**	163,336
Unrealized foreign exchange gain (loss) on translation of foreign operations	**60,148**	(44,340)
Change in fair value of other assets, net of tax	**46**	53
Balance, end of year	**179,243**	119,049
	697,570	593,198

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,	
	2018	2017
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income	**47,735**	36,241
Adjustments for:		
Depreciation and amortization	**63,813**	65,031
Stock-based compensation (note 17)	**27,262**	22,855
Other non-cash (gain) loss	**(91)**	1,469
Deferred income tax expense (recovery) (note 15)	**79**	(5,156)
(Gain) on disposal of assets	**(1,402)**	(1,297)
Other income	**(4,665)**	(43)
Finance costs	**-**	11,064
Change in non-cash working capital (note 22)	**(55,133)**	(153,455)
	77,598	(23,291)
FINANCING ACTIVITIES:		
Repayment of finance leases	**(11,417)**	(9,634)
7.375% Senior Notes redemption (note 9)	**-**	(311,064)
Net proceeds from Senior Notes issuance (note 9)	**-**	292,974
Increase in Senior Facility	**49,623**	110,038
Shareholder dividends	**(12,050)**	(7,969)
Issuance of shares, net of issuance costs	**1,362**	4,682
Common shares repurchased and cancelled through NCIB (note 16)	**(19,532)**	-
	7,986	79,027
INVESTING ACTIVITIES:		
Investment in property and equipment, net of insurance proceeds	**(76,591)**	(60,619)
Investment in intangible assets	**(8,597)**	(4,497)
Proceeds from (investment in) other assets	**2,628**	(1,777)
Deferred acquisition consideration (note 4)	**(4,550)**	(4,515)
Business combinations (note 4)	**(5,315)**	(10,050)
Proceeds on disposal of property and equipment	**6,840**	12,332
	(85,585)	(69,126)
CHANGE IN CASH	**-**	(13,390)
Cash, beginning of year	**-**	13,390
Cash, end of year	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**26,109**	27,364
Income taxes paid	**1,470**	(3,202)

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, 2018 and 2017 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, 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 12, 2019.

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 and comprehensive income (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 and comprehensive income (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 and comprehensive income (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	5-25 years
Buildings & leasehold improvements	3-30 years
Tanks	10-20 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 finance costs and a reduction of the outstanding liability. The finance costs are 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 classified as 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 and other intangibles 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	5-20 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 products is recognized as the Company satisfies the performance obligations with its customers over time as they consume products. Transaction prices are determined based on the agreed upon prices with customers for CES' goods and services at the time contracts are entered into. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money, and expenses any incremental costs of obtaining contracts with customers as incurred. 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, net of interest income, 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 debt issue 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 and comprehensive income (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) Financial instruments

Classification and Measurement of Financial Instruments

Financial assets and financial liabilities are classified into three categories: Amortized Cost, Fair Value through Other Comprehensive Income ("FVTOCI") and Fair Value through Profit and Loss ("FVTPL"). The classification of financial assets is determined by their context in the Company's business model and by the characteristics of the financial asset's contractual cash flows. Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification.

Amortized Cost
Accounts receivable; deposits; accounts payable and accrued liabilities; dividends payable; finance lease obligations; long-term debt; and deferred acquisition consideration are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

FVTPL
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 measured initially at FVTPL and are subsequently measured at fair value with changes in fair value recognized in net income. Realized gains and losses from 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.

FVTOCI
The Company, through its captive insurance subsidiary, holds investments for self-insured liabilities which are classified as being measured at FVTOCI as the contractual cash flows received from the investments were solely payments of principal and interest and were held within a business model whose objective was both to hold the financial assets to collect the contractual cash flows as well as to sell the financial assets. Financial assets measured at FVTOCI are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Upon derecognition of the underlying financial asset, amounts in OCI are reclassified to the statements of income.

Fair value measurement
CES classifies the fair value of its financial instruments 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.

Impairment of financial assets
The Company recognizes a loss allowance for expected credit losses on financial assets. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve months of expected credit losses. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net income or OCI. The asset, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated loss increases or decreases because of an event occurring after the loss was recognized, the previously recognized loss is increased or reduced by adjusting the allowance account.

o) 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.

p) 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.

q) 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 and the respective allocation of shared corporate carrying values 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 uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. 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 estimates to be made by management. These estimates include, but are not limited to, expected levels of activity within the oil and natural gas industry, 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, future activity levels within the oil and natural gas industry, current economic and market conditions, and potential changes in government regulations. Future activity cannot be predicted with certainty and, as such, actual results may differ from these estimates. Changes to these estimates, including continued downward pressure on the Canadian market, may affect the recoverable amounts of the Company's CGUs which may then require a material adjustment to their related carrying values.

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.

r) Recent Accounting Pronouncements
Newly adopted accounting standards
CES adopted IFRS 15, *"Revenue from Contracts with Customers"*, on January 1, 2018 using the modified retrospective method. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption. CES recognizes revenue as the Company satisfies the performance obligations with its customers over time as they consume oilfield chemical solutions. The Company has elected the practical expedient as permitted under IFRS 15 to measure progress towards satisfaction of its performance obligations based on the value of the Company's performance completed to date each reporting period. Transaction prices are determined based on the agreed upon prices with customers for CES' goods and services at the time contracts are entered into. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money, and expenses any incremental costs of obtaining contracts with customers as incurred, based on the practical expedients permitted under IFRS 15. The nature and timing of revenue recognized during the period has not changed as compared to amounts presented in the annual consolidated financial statements for the year ended December 31, 2017 and prior. CES disaggregates revenue by the geographies in which the Company operates, being the US and Canada.

CES retrospectively adopted IFRS 9, *"Financial Instruments",* on January 1, 2018. The adoption of the standard has not resulted in any changes to the classification or measurement of the Company's financial instruments. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, which are amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. Note 3(n) summarizes the changes to the Company's financial asset and liability classifications. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of CES' financial assets. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Company continues to monitor historical credit losses in the US and Canada each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS.

Future accounting policy changes
The International Accounting Standards Board issued IFRS 16, *"Leases"* which replaces IAS 17, "*Leases"* effective for fiscal years beginning on or after January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company plans to use the modified retrospective approach, which does not

require restatement of prior period financial information, for its adoption of IFRS 16 effective January 1, 2019. Accordingly, comparative information in the Company's financial statements are not restated. The Company has elected to apply to practical expedients not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases with an underlying asset of low-value. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

On adoption of IFRS 16, CES has elected to record right-of-use assets based on the corresponding lease liability. A preliminary assessment indicates that right-of-use assets and corresponding lease liabilities of approximately $24,000 will be recognized on January 1, 2019. Lease liabilities were measured at the present value of the remaining lease payments as at January 1, 2019 and discounted using the Company's incremental borrowing rate as of January 1, 2019.

4. Business Combinations

2018 Acquisition
Caradan Chemicals Inc.
On January 4, 2018, CES closed the acquisition of certain assets and liabilities of Caradan Chemicals Inc. (the "Caradan Acquisition"). Caradan was a private company based out of Nisku, Alberta, that provided production chemical solutions to oil and gas operators in central Alberta.

The Caradan Acquisition filled a gap in PureChem's existing operations in central Alberta market coverage, while removing a competitor in this highly competitive region. Economies of scale were obtained through the acquisition as Caradan was fully integrated into PureChem's operations and provides the Company with opportunities to grow market share in Alberta, and enhance product offering to new and existing customers.

The aggregate purchase price of $4,376 was paid in cash on the closing date. In conjunction with the Caradan Acquisition, the Company recorded $15 in transaction costs to general and administrative expenses during the year ended December 31, 2018.

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

Allocation of purchase price $000's	
Property and equipment	1,051
Intangible assets	2,000
Goodwill	2,928
Total assets	**5,979**
Current liabilities	(1,603)
Total liabilities	**(1,603)**
Net assets acquired	**4,376**

The amount of revenue and profit or loss attributable to the acquisition from the date of acquisition to December 31, 2018, is not readily determinable. The goodwill recognized on the Caradan 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.

2017 Acquisition
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 was paid 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.

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

$000s	
Balance at December 31, 2017	5,070
Settlements	(4,550)
Balance at December 31, 2018	520
Current portion	370
Long-term portion	150

During 2018, the Company paid out $4,180 of deferred acquisition consideration as an earn-out upon the StimWrx division achieving certain EBITDA thresholds over a twelve month period post close.

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2018, was $605,242 (2017 – $481,307). During the year ended December 31, 2018, the Company recorded a negligible amount of inventory valuation write-downs and write-down reversals (2017 – also negligible).

6. Property and Equipment

Property and equipment are comprised of the following balances:

$000s	Balance December 31, 2017	Additions through business combinations	Additions	Disposals	Effect of movements in exchange rates	**Balance December 31, 2018**
Cost:						
Buildings & leasehold improvements	127,489	565	24,779	(364)	3,699	**156,168**
Processing equipment	51,886	-	7,722	(737)	7,905	**66,776**
Trucks and trailers	71,727	-	20,933	(2,964)	5,049	**94,745**
Vehicles	48,018	206	24,147	(12,384)	3,375	**63,362**
Tanks	40,904	-	10,808	(550)	4,955	**56,117**
Field equipment	48,168	182	13,638	(920)	3,294	**64,362**
Aircraft	22,587	-	595	-	306	**23,488**
Land	12,329	-	4,615	(65)	759	**17,638**
Office & computer equipment	12,440	98	2,789	(348)	879	**15,858**
	435,548	1,051	110,026	(18,332)	30,221	**558,514**

$000s	Balance December 31, 2017	Depreciation for the year	Disposals	Effect of movements in exchange rates	**Balance December 31, 2018**
Depreciation:					
Buildings & leasehold improvements	25,584	7,738	(88)	1,654	**34,888**
Processing equipment	12,199	3,445	(3)	1,013	**16,654**
Trucks and trailers	40,583	11,776	(1,729)	3,180	**53,810**
Vehicles	17,889	11,240	(8,312)	1,197	**22,014**
Tanks	12,380	2,899	(240)	961	**16,000**
Field equipment	25,846	6,451	(668)	1,880	**33,509**
Aircraft	7,419	1,305	-	52	**8,776**
Land	-	-	-	-	**-**
Office & computer equipment	9,663	1,903	(309)	643	**11,900**
	151,563	46,757	(11,349)	10,580	**197,551**

Included in accumulated depreciation for the year is $225 that has been allocated to inventory as at December 31, 2018 (2017 - $122).

$000s	Balance December 31, 2017	**Balance December 31, 2018**
Carrying amounts:		
Buildings & leasehold improvements	101,905	**121,280**
Processing equipment	39,687	**50,122**
Trucks and trailers	31,144	**40,935**
Vehicles	30,129	**41,348**
Tanks	28,524	**40,117**
Field equipment	22,322	**30,853**
Aircraft	15,168	**14,712**
Land	12,329	**17,638**
Office & computer equipment	2,777	**3,958**
	283,985	**360,963**

$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**

Borrowing costs
For the year ended December 31, 2018, the Company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of $62 (2017 – $91).

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, 2017	97,440	19,881	61,057	178,378	278,466
Additions through business combinations	2,524	-	13	2,537	2,928
Additions	-	5,723	2,861	8,584	-
Disposals	-	(231)	-	(231)	-
Effect of movements in exchange rates	5,942	994	3,042	9,978	18,106
Balance at December 31, 2018	105,906	26,367	66,973	199,246	299,500
Amortization:					
Balance at December 31, 2017	57,782	13,979	27,168	98,929	-
Amortization for the year	8,476	2,350	6,455	17,281	-
Disposals	-	(52)	-	(52)	-
Effect of movements in exchange rates	3,862	301	1,782	5,945	-
Balance at December 31, 2018	70,120	16,578	35,405	122,103	-
Carrying amount at December 31, 2018	**35,786**	**9,789**	**31,568**	**77,143**	**299,500**

$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**

Impairment testing for cash-generating units containing goodwill

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, 2017	76,661	201,805	278,466
Additions through business combinations (note 4)	2,928	-	2,928
Effect of movements in exchange rates	-	18,106	18,106
Balance at December 31, 2018	79,589	219,911	299,500

(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, 2018, 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. At December 31, 2018 an estimated risk adjusted, pre-tax discount rate of 14.4% and 14.9% (2017 – 14.5%) was used for the Canadian Operations CGU and US Operations CGU, respectively. The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 14% in 2019 to as high as positive 15% in later years (2017 – 13% growth in 2018 to 4% in later years). For both CGUs, the Company has used a 2% terminal growth rate (2017 – 2%). A decrease of 0.5% in the terminal growth rate would result in a goodwill impairment for the Canadian CGU. 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. Changes to these estimates and external market conditions, including continued downward pressure on the Canadian market, may affect the recoverable amounts of the Company's CGUs which may then require a material adjustment to their related carrying values.

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 financial assets at fair value through OCI. 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, 2018**	December 31, 2017
Fixed income securities, with maturities due:		
Less than 1 year	**1,543**	2,086
1-5 years	**1,617**	3,332
Greater than 5 years	**507**	918
	3,667	6,336
Cash and cash equivalents	**339**	424
Equities	**854**	761
Other assets	**4,860**	7,521

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

Certain of these investments in the amount of $1,379 (December 31, 2017 - $1,174) 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

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

	As at	
$000s	**December 31, 2018**	December 31, 2017
Senior Facility	**162,036**	109,926
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**300,000**	300,000
	462,036	409,926
Less: net unamortized debt issue costs	**(6,445)**	(7,505)
Long-term debt	**455,591**	402,421

Senior Facility

On November 8, 2018, the Company amended its syndicated senior facility (the "Senior Facility") to exercise $55,000 of available accordion capacity, increasing the maximum amount available on the Canadian facility from $125,000 to $180,000. All other terms and conditions of the Senior Facility remain unchanged. As at December 31, 2018, the Senior Facility is comprised of a Canadian facility of $180,000 and a US facility of US$40,000. The Senior Facility matures on September 28, 2020, and may be extended by one year upon agreement of the lenders and the Company. 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.

As at December 31, 2018, the maximum available draw on the Senior Facility was $180,000 on the Canadian facility and US$40,000 on the US facility. As at December 31, 2018, the Company had a net draw of $161,501 on the Senior Facility (December 31, 2017 – $109,255), with capitalized transaction costs of $535 (December 31, 2017 – $671). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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 calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00, calculated on a rolling four-quarter basis.

The relevant definitions of key ratio terms as set forth in the 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 at December 31, 2018 and December 31, 2017, are as follows:

	As at	
$000s	**December 31, 2018**	December 31, 2017
Net Senior Debt	**197,221**	130,376
EBITDA for the four quarters ended	**166,012**	152,414
Ratio	**1.188**	0.855
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**166,012**	152,414
Interest Expense for the four quarters ended	**26,033**	26,366
Ratio	**6.377**	5.781
Minimum	**2.500**	2.500

Senior Notes

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, which were due April 17, 2020. 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.

As at December 31, 2018, the Company had $300,000 of outstanding principal on unsecured senior notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable 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. 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. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at December 31, 2018, the Company was in compliance with the terms and covenants of its lending agreements. For the year ended December 31, 2018, the Company recorded $27,309 (2017 – $27,639) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments on the Company's long-term debt at December 31, 2018, are as follows:

$000s	
2019	-
2020	**162,036**
2021	-
2022	-
2023	-
2024 and thereafter	**300,000**
	462,036

10. Finance Leases

During the year ended December 31, 2018, the Company completed sale and leaseback transactions on specified assets for proceeds equal to the net book value of the respective assets in the amount of $3,591. The leases are for a period of 36 months, terminating by October 2021, and have a fixed interest rate of 4.65%.

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 and equipment leases are for terms ranging from February 2019 through March 2022 with interest rates of up to 7.37% and a weighted average interest rate of 5.50%. The carrying value of assets under finance leases at December 31, 2018 totaled $40,359 (December 31, 2017 – $25,794), of which $33,705 relates to vehicles, $1,772 relates to buildings, $1,975 relates to tanks, $2,628 relates to trucks and trailers, and $279 relates to other machinery and field equipment. Amortization expense relating to assets under finance leases for the year ended December 31, 2018 totaled $9,366 (2017 – $7,184).

Future minimum lease payments outstanding under the Company's finance lease obligations at December 31, 2018 are as follows:

$000s	
Less than 1 year	**16,284**
1-5 years	**19,092**
5+ years	-
Total lease payments	**35,376**
Amount representing implicit interest	**(2,280)**
Finance lease obligations	**33,096**
Less: current portion of finance lease obligations	**(14,857)**
Long-term finance lease obligations	**18,239**

11. Cost of Sales

Included in cost of sales for the year ended December 31, 2018, is depreciation charged on property and equipment of $41,285 (2017 – $38,136) and employee compensation and benefits of $174,159 (2017 – $130,290).

12. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2018, is depreciation charged on property and equipment and amortization charged on intangible assets of $22,529 (2017 – $26,895), stock-based compensation of $27,262 (2017 – $22,855), employee compensation and benefits of $88,599 (2017 – $74,168), and one-time CFO-related transition costs of $2,660 (2017 – nil).

13. Finance Costs

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

	Year Ended December 31,	
$000s	**2018**	2017
Foreign exchange loss (gain)	**396**	(862)
Financial derivative (gain) loss	**(1,485)**	1,744
Amortization of debt issue costs and premium	**1,275**	1,273
Interest on debt, net of interest income	**26,162**	26,385
Less: capitalized interest	**(62)**	(91)
Other finance costs	**73**	11,747
Finance costs	**26,359**	40,196

14. Other Income

During the year ended December 31, 2018, the Company received proceeds on property insurance claims in the amount of $6,470 resulting in the recognition of a gain of $4,936 in excess of the net book value of property and equipment derecognized at the time of the claim.

15. 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	**2018**	2017
Current income tax expense (recovery)		
Current year income tax expense (recovery)	**3,487**	1,577
New taxes imposed [(1)]	**-**	469
Prior year income tax expense adjustment (recovery)	**342**	(7,079)
Total current income tax expense (recovery)	**3,829**	(5,033)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**168**	(11,948)
Changes in tax rates [(1)]	**-**	7,005
Adjustments for prior years	**(89)**	(213)
Total deferred income tax expense (recovery)	**79**	(5,156)
Total income tax expense (recovery)	**3,908**	(10,189)

[(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 $7.0 million for the year 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	**2018**	2017
Income before taxes	**51,643**	26,052
Combined Canadian statutory rate	**27.00%**	26.87%
Provision for income taxes computed at the Canadian statutory rate	**13,944**	7,000
Effects on taxes resulting from		
Non-deductible expenses	**1,327**	170
Stock-based compensation	**4,868**	4,195
Deductions for tax in excess of accounting, net	**(15,310)**	(14,969)
Adjustment of prior year taxes	**(33)**	(289)
Settlement of the corporate conversion transaction	**-**	(7,003)
Non-taxable capital gains or losses	**-**	(6)
Income tax in jurisdictions with different tax rates	**1,601**	(1,466)
Foreign exchange	**(282)**	(633)
Change in unrecognized deferred income tax asset	**(2,212)**	(4,787)
Change in statutory rate	**5**	126
Effect of US tax reform	**-**	7,473
Income tax expense (recovery)	**3,908**	(10,189)

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

	As at	
$000s	**December 31, 2018**	December 31, 2017
Property and equipment	**38,325**	21,780
Goodwill and other intangible assets	**(5,610)**	(7,362)
Financing costs and other tax credits	**(1,331)**	(10,547)
Other temporary differences	**(13,341)**	(7,427)
Non-capital losses	**(31,857)**	(22,420)
Capital losses	**(1,422)**	(1,416)
Unrecognized tax benefit, net	**6,546**	19,706
Total, net deferred income tax (asset) liability	**(8,690)**	(7,686)
Deferred income tax asset	**(14,351)**	(13,437)
Deferred income tax liability	**5,662**	5,751

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,	
$000s	**2018**	2017
Deferred income tax liabilities:		
Charged (credited) to earnings	**(90)**	(2,109)
Charged (credited) to goodwill	**-**	1,161
Charged (credited) to equity	**-**	-
	(90)	(948)
Deferred income tax assets:		
Charged (credited) to earnings	**169**	(2,913)
Charged (credited) to equity	**(1,083)**	949
	(914)	(1,964)
Net Movement	**(1,004)**	(2,912)

No deferred tax liability has been recognized as at December 31, 2018 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:

$000s	**As at December 31, 2018**	Expiration Date
Canada:		
Non-capital losses	**26,462**	2031-2038
Net capital losses	**10,536**	Indefinite
United States:		
Non-capital losses	**96,727**	After 2034
Luxembourg		
Operating losses	**388**	2035

As at December 31, 2018, there are unrecognized deferred income tax assets relating to capital and non-capital losses of $6,526, other financing costs of $12,312 and investment tax credits of $807. 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 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 did 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.

16. 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, 2018		Year Ended December 31, 2017	
Common Shares	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**267,935,090**	**655,028**	262,300,999	622,665
Consideration for business combinations, net of share issue costs	**-**	**-**	1,783,745	12,796
Issued pursuant to stock-based compensation	**2,739,909**	**1,362**	3,846,450	4,712
Contributed surplus related to stock-based compensation	**-**	**14,200**	-	14,829
Issued pursuant to stock settled director fee	**11,510**	**58**	3,896	26
Common shares repurchased and cancelled through NCIB	**(4,799,900)**	**(19,532)**	-	-
Balance, end of year	**265,886,609**	**651,116**	267,935,090	655,028

Normal Course Issuer Bid ("NCIB")
On July 17, 2018, the Company began a normal course issuer bid to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. As of December 31, 2018, the Company has repurchased 4,799,900 common shares at an average price of $4.07 per share for a total amount $19,532.

c) Net income per share
In calculating the basic and diluted net income per share for the year ended December 31, 2018 and 2017, 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	**2018**	2017
Net income	**47,735**	36,241
Weighted average number of shares outstanding:		
Basic shares outstanding	**268,004,817**	265,865,387
Effect of dilutive shares	**6,868,175**	6,962,909
Diluted shares outstanding	**274,872,992**	272,828,296
Net income per share - basic	**$0.18**	$0.14
Net income per share - diluted	**$0.17**	$0.13

Excluded from the calculation of dilutive shares for the year ended December 31, 2018, are 9,091,600 Share Rights (2017 – 14,875,400 of Share Rights) that are considered anti-dilutive.

17. Stock-Based Compensation

As at December 31, 2018, a total of 26,588,661 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 7,987,534 common shares remained available for grant. For the year ended December 31, 2018, stock compensation expense of $27,262 (2017 – $22,855) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

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

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

A summary of changes under the SRIP is presented below:

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**14,875,400**	**$6.38**	14,045,400	$6.26
Granted during the year	**210,000**	**6.07**	3,281,400	5.99
Exercised during the year	**(317,955)**	**4.28**	(1,158,400)	4.07
Expired during the year	**(1,258,000)**	**7.16**	(114,000)	3.57
Forfeited during the year	**(1,175,800)**	**6.93**	(1,179,000)	6.03
Balance, end of year	**12,333,645**	**$6.29**	14,875,400	$6.38
Exercisable Share Rights, end of year	**8,913,245**	**$6.64**	7,167,332	$7.23

The compensation costs for Share Rights granted during the year ended December 31, 2018, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Year Ended December 31, 2018
Risk-free interest rate	**1.86%**
Expected average life of Share Rights	**3.2 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.96%**
Dividend yield	**0.25%**
Expected volatility	**52.89%**
Weighted average share price	**$6.07**
Weighted average fair value per Share Right	**$2.28**

The following table summarizes information about the outstanding grants under the Company's SRIP as at December 31, 2018:

	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	3,242,045	$4.20	2.62	2,044,045	$4.21
$4.84 - $6.17	2,857,600	5.88	3.49	978,200	5.87
$6.18 - $6.77	382,000	6.47	2.67	242,000	6.52
$6.78 - $7.07	4,030,000	6.92	1.39	4,030,000	6.92
$7.08 - $10.98	1,822,000	9.25	1.13	1,619,000	9.49
	12,333,645	$6.29	2.20	8,913,245	$6.64

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, 2018		Year Ended December 31, 2017	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**4,706,493**	**$5.98**	4,858,585	$6.19
Granted during the year	**4,236,453**	**5.89**	2,806,886	6.66
Reinvested during the year	**67,850**	**6.04**	23,798	5.61
Vested during the year	**(2,421,955)**	**5.68**	(2,688,050)	5.11
Forfeited during the year	**(321,359)**	**6.29**	(294,726)	5.24
Balance, end of year	**6,267,482**	**$6.03**	4,706,493	$5.98

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 RSUs for the year ended December 31, 2018, was reduced by an estimated weighted average forfeiture rate of 4.98% per year at the date of grant.

18. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2018, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.0025	**669**
February	Feb 28	Mar 15	$0.0025	**670**
March	Mar 30	Apr 13	$0.0025	**671**
April	Apr 30	May 15	$0.0025	**672**
May	May 31	June 15	$0.0025	**672**
June	June 29	July 13	$0.0050	**1,347**
July	July 31	Aug 15	$0.0050	**1,338**
August	Aug 31	Sept 14	$0.0050	**1,335**
September	Sept 28	Oct 15	$0.0050	**1,339**
October	Oct 31	Nov 15	$0.0050	**1,334**
November	Nov 30	Dec 14	$0.0050	**1,331**
December	Dec 31	Jan 15	$0.0050	**1,329**
Total dividends declared during the year			$0.0475	**12,707**

Subsequent to December 31, 2018, the Company declared dividends to holders of common shares in the amount of $0.005 per common share payable on February 15, 2019 and March 15, 2019, for shareholders of record on January 31, 2019 and February 28, 2019, respectively.

19. Commitments

The Company has commitments with payments due as follows:

$000s	
Less than 1 year	9,862
1-5 years	20,447
5+ years	12,441
Office and facility rent, and other	**42,750**

Payments denominated in foreign currencies have been translated using the December 31, 2018 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 Company's financial assets and liabilities consist of accounts receivable, deposits, accounts payable and accrued liabilities, dividends payable, finance lease obligations, long-term debt, and deferred acquisition consideration. The carrying values of accounts receivable, deposits, 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, excluding the Senior Notes, 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, 2018. At December 31, 2018, the estimated fair value of the Senior Notes was $285,502 (December 31, 2017 – $308,918) and is based on level 2 inputs as the inputs are observable through correlation with market data.
The following table aggregates the Company's financial derivatives and financial assets at fair value through OCI in accordance with the fair value 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, 2018					
Financial derivative asset	270	270	-	270	-
Other assets	4,860	4,860	4,860	-	-
	5,130	5,130	4,860	270	-
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)	-

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 and continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable, to assess collectability. Accounts receivable are primarily comprised of balances from customers operating primarily in the oil and gas industry. Accordingly, the Company views the credit risks on these amounts as normal for the industry.

The company has trade and other receivables as follows:

	As at	
$000s	**December 31, 2018**	**December 31, 2017**
Trade receivables	**234,402**	225,825
Allowance for doubtful accounts	**(2,378)**	(2,224)
Total trade receivables	**232,024**	223,601
Accrued revenue	**69,645**	56,386
Other receivables	**9,553**	5,989
Total trade and other receivables	**311,222**	285,976

The company uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses based on historical loss rates, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. On adoption of IFRS 9, there was no material change in the provision recognized.

An analysis of accounts receivable, net of impairment provisions, is as follows:

	As at	
$000s	**December 31, 2018**	December 31, 2017
0-30 days	**114,081**	109,425
31-60 days	**76,502**	72,139
61-90 days	**28,091**	27,309
91-120 days	**8,684**	6,754
121+ days	**7,044**	10,197
	234,402	225,825

The change in the provision for expected credit losses is as follows:

	As at	
$000s	**December 31, 2018**	December 31, 2017
Balance, beginning of year	**2,224**	2,999
Additional allowance	**518**	844
Amounts collected	**(200)**	(522)
Amounts used	**(327)**	(961)
Effect of movements in exchange rates	**163**	(136)
Balance, end of year	**2,378**	2,224

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, 2018, 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 $590 lower/higher for the respective year ended December 31, 2018 (2017 – $372 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, 2018, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to decrease/increase net income by approximately $1,099 (2017 – decrease/increase $980).

At December 31, 2018, 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 2019	US$1,000	Deliverable Forward	Physical Purchase	$1.2286
February 2019	US$1,000	Deliverable Forward	Physical Purchase	$1.2285
Total	US$2,000			$1.2286

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 and comprehensive income (loss):

	Year Ended December 31,	
$000s	**2018**	2017
Realized financial derivative (gain) loss	**(702)**	1,799
Unrealized financial derivative gain	**(783)**	(55)
Financial derivative (gain) loss	**(1,485)**	1,744

At December 31, 2018, a favourable or unfavourable 1% change in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase or decrease, respectively, to net income of $27 (2017 – $138).

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, 2018, 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 prudent management of its operational cash flows.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2018:

	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	125,149	-	-	-	-	**125,149**
Dividends payable [2]	1,329	-	-	-	-	**1,329**
Income taxes payable	-	2,892	-	-	-	**2,892**
Deferred acquisition consideration	370	-	150	-	-	**520**
Senior Notes [3]	-	-	-	-	300,000	**300,000**
Interest on Senior Notes	-	19,125	19,125	57,375	19,125	**114,750**
Finance lease obligations at fixed interest rates [4]	202	1,035	1,305	1,979	-	**4,521**
Finance lease obligations at floating interest rates [4]	2,245	11,375	10,953	4,002	-	**28,575**
Office and facility rent, and other	1,873	7,989	7,790	12,657	12,441	**42,750**
	131,168	42,416	39,323	76,013	331,566	**620,486**

Notes:

[1] *Payments denominated in foreign currencies have been translated using the December 31, 2018 exchange rate.*
[2] *Dividends declared as of December 31. 2018.*
[3] *The Senior Notes are due on October 21. 2024.*
[4] *Finance lease obligations reflect principal payments and excludes any associated interest portion.*

21. Capital Management

The capital structure of the Company is as follows:

	As at	
$000s	**December 31, 2018**	December 31, 2017
Long-term debt [1]	**462,036**	409,926
Shareholders' equity	**697,570**	593,198
Total capitalization	**1,159,606**	1,003,124

(1) Includes: Senior Notes and Senior Facility

For the year ended December 31, 2018, the Company considers capital to include shareholders' equity and long-term debt. The Company's objectives when managing capital are to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions; as well as to maintain creditor and shareholder confidence.

The Company's overall capital management strategy remains unchanged in 2018. Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in 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 or repurchase 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, 2018, 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	**2018**	2017
(Increase) decrease in current assets		
Accounts receivable	**(9,755)**	(118,092)
Inventory	**(49,689)**	(63,280)
Prepaid expenses and deposits	**(53)**	(2,495)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**8,294**	30,173
	(51,203)	(153,694)
Relating to:		
Operating activities	**(55,133)**	(153,455)
Investing activities	**3,930**	(239)

For the years ended December 31, 2018 and 2017, 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	**2018**	2017
United States	**847,841**	651,983
Canada	**423,210**	377,657
	1,271,051	1,029,640

	Long-Term Assets [(1)]	
$000s	**December 31, 2018**	December 31, 2017
United States	**512,052**	443,992
Canada	**230,414**	205,429
	742,466	649,421

[(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, 2018, remuneration of $11,354 included $8,174 of salaries and cash-based compensation and $3,180 of stock-based compensation costs (December 31, 2017 – $8,707 and $2,969, respectively). During the year ended December 31, 2018, the Company recorded general and administrative expenses of $2,660 and stock-based compensation expense of $693 in respect of one-time CFO-related transition costs.

During the year ended December 31, 2018, CES bought property and equipment for a purchase price of $320 from an executive officer of the Company, and from companies controlled by the respective executive officer. CES also paid rent of $116, respectively, to an executive officer of the Company for use of a temporary rental property. These transactions approximate fair value and have been accounted for at the exchange amount being the amount agreed to by the related parties.

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

25. Significant Subsidiaries

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

Subsidiary Name	Country of Incorporation	Ownership Interest % December 31, 2018	Ownership Interest % December 31, 2017
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, 2018, one customer accounted for 11% (2017 – 12%) 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]

Burton J. Ahrens[1,4]

Spencer D. Armour III

Philip J. Scherman[1]

Stella Cosby[2,3,4]

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

OFFICERS
Thomas J. Simons
President & Chief Executive Officer

Anthony M. Aulicino
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D Zandee
Vice President, Marketing

Jason D. Waugh
President, Canadian Production Chemicals

Richard Baxter
President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

James M. Pasieka
Corporate Secretary

AUDITORS
Deloitte LLP
Chartered Professional Accountants, Calgary, AB

BANKERS
Scotiabank Canada, Calgary, AB

LEGAL COUNSEL
McCarthy Tetrault, LLP, Calgary, AB
Crowe & Dunlevy, Oklahoma City, OK

REGISTRAR & TRANSFER AGENT
Computershare Investor Services Inc.
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