# 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 unaudited condensed consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the three months ended March 31, 2018, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2017 and 2016, and CES' 2017 Annual Information Form. This MD&A is dated May 10, 2018, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.*

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

*In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business; the anticipated reduction in exposure to the effects of spring break-up in the WCSB; the certainty and predictability of future cash flows and earnings; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC; future estimates as to dividend levels; the potential means of funding dividends; the intention to make future dividend payments; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2018, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and PureChem facilities; expectations regarding increased headcount and cost inflation related to General and Administrative Costs; management's opinion of the impact of any potential litigation or disputes; the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES' financial statements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies; CES' ability to increase or maintain its market share; expectations regarding the number of Treatment Points in Canada; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and specialty chemical sales and expected growth in the consumable chemicals market; 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 U.S; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime; expectations regarding the impact of governmental carbon pricing schemes; expectations regarding expansion of services in Canada and the U.S.; development of new technologies; expectations regarding CES' growth opportunities in Canada and the U.S.; the effect of acquisitions on the Company including the effect of the Catalyst, and StimWrx Acquisitions (as defined herein); expectations regarding the performance or expansion of CES' operations; expectations regarding the diversification of operations away from the drill-bit; expectations that competitor consolidation and business failures will provide future opportunities to CES; expectations regarding demand for CES' services and technology; the potential for CES to expand its business as it relates to water usage and handling; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; expectations regarding the impact of the refinancing of CES's Senior Notes; and competitive conditions.*

*CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in Canada, the U.S., and internationally; geopolitical risk; fluctuations in demand for consumable fluids and chemical oilfield services, and any downturn in oilfield activity; a decline in activity in the WCSB, the Permian and other basins in which the Company operates; a decline in frac related chemical sales; a decline in operator usage of chemicals on wells; an increase in the number of customer well shut-ins; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; the declines in prices for natural gas, natural gas liquids, and oil, and pricing differentials between world pricing and pricing in North America; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the U.S. dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; ability to protect the Company's proprietary technologies; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; reassessment and audit risk and other tax filing matters; changes and proposed changes to U.S. policies including the potential for tax reform, and possible renegotiation of international trade agreements including NAFTA; international and domestic trade disputes, including restrictions on the transportation of oil and natural gas; divergence in climate change policies between Canada and the U.S.; potential changes to the crude by rail industry; changes to the fiscal regimes applicable to entities operating in the WCSB and the US; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates, and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2017 and "Risks and Uncertainties" in this MD&A.*

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

## CORPORATE NAME CHANGE

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

## BUSINESS OF CES

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


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

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

Clear is a complimentary business division that supports the operations and augments the product offerings in the WCSB. Clear is CES' environmental division, providing environmental consulting, water management services, and drilling fluids waste disposal services primarily to oil and gas producers active in the WCSB.

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

CES' business model is relatively asset light and requires limited re-investment capital to grow. As a result, CES has been able to capitalize on the growing market demand for drilling fluids and production and specialty chemicals in North America while generating free cash flow. CES' current dividend level preserves the strength of the Company's balance sheet while providing liquidity to fund potential growth initiatives. CES will continue to be protective of its balance sheet and prudent with its cash dividend.

## NON-GAAP MEASURES

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| Net income | **13,250** | 7,778 |
| Add back (deduct): | | |
| Depreciation on property and equipment in cost of sales | **9,561** | 9,123 |
| Depreciation on property and equipment in G&A | **1,240** | 1,339 |
| Amortization on intangible assets in G&A | **4,340** | 5,937 |
| Interest expense, net of interest income | **5,995** | 6,040 |
| Amortization of capitalized deferred financing costs | **316** | 321 |
| Current income tax expense | **1,321** | 2,561 |
| Deferred income tax expense (recovery) | **1,521** | (2,735) |
| Stock-based compensation | **6,099** | 5,870 |
| Unrealized foreign exchange loss (gain) | **78** | (42) |
| Unrealized derivative gain | **(2,109)** | (620) |
| (Gain) loss on disposal of assets | **(224)** | 370 |
| Other finance costs | **1** | 169 |
| Other loss (income) | **1** | (4) |
| EBITDAC | **41,390** | 36,107 |

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

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

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

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

Cash gross margin is calculated as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| Gross margin | **70,605** | 59,785 |
| as a percentage of revenue | **24%** | 24% |
| Add back (deduct): | | |
| Depreciation included in cost of sales | **9,561** | 9,123 |
| (Gain) loss on disposal of assets included in cost of sales | **(224)** | 370 |
| Cash Gross Margin (1) | **79,942** | 69,278 |
| as a percentage of revenue | **27%** | 27% |

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| General and administrative expenses | **49,356** | 45,440 |
| as a percentage of revenue | **16%** | 18% |
| Deduct non-cash expenses included in general & administrative expenses: | | |
| Stock-based compensation | **6,099** | 5,870 |
| Depreciation & amortization | **5,580** | 7,276 |
| Cash General and Administrative Costs (1) | **37,677** | 32,294 |
| as a percentage of revenue | **13%** | 13% |

***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* | **March 31, 2018** | December 31, 2017 |
| Long-term financial liabilities(1) | **422,205** | 414,384 |
| Current portion of finance lease obligations | **9,080** | 8,413 |
| Total indebtedness | **431,285** | 422,797 |
| Deduct working capital surplus: | | |
| Current assets | **495,279** | 477,809 |
| Current liabilities(2) | **(117,203)** | (118,921) |
| Working capital surplus | **378,076** | 358,888 |
| Net Debt | **53,209** | 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 obligations.*

## OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

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

## MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this MD&A is based upon independent industry publications and websites or was based on estimates derived from the same along with the knowledge of and experience of management in the markets in which the Corporation operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, CES. Actual outcomes may vary materially from those forecasted in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes this data can be reasonably relied on, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Corporation has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources.

# FINANCIAL HIGHLIGHTS

| *Summary Financial Results* *($000s, except per share amounts)* | Three Months Ended March 31, **2018** | 2017 | % Change |
|---|---|---|---|
| Revenue | **300,318** | 252,352 | 19% |
| Gross margin | **70,605** | 59,785 | 18% |
| as a percentage of revenue | **24%** | 24% | |
| Cash Gross Margin [1] | **79,942** | 69,278 | 15% |
| as a percentage of revenue | **27%** | 27% | |
| Income before taxes | **16,092** | 7,604 | 112% |
| *per share – basic* | ***0.06*** | *0.03* | *100%* |
| *per share - diluted* | ***0.06*** | *0.03* | *100%* |
| Net income | **13,250** | 7,778 | 70% |
| *per share – basic* | ***0.05*** | *0.03* | *67%* |
| *per share - diluted* | ***0.05*** | *0.03* | *67%* |
| EBITDAC [1] | **41,390** | 36,107 | 15% |
| *per share – basic* | ***0.15*** | *0.14* | *7%* |
| *per share - diluted* | ***0.15*** | *0.13* | *15%* |
| Funds Flow From Operations [1] | **34,084** | 27,523 | 24% |
| *per share – basic* | ***0.13*** | *0.10* | *30%* |
| *per share - diluted* | ***0.12*** | *0.10* | *20%* |
| Dividends declared | **2,010** | 1,983 | 1% |
| *per share* | ***0.0075*** | *0.0075* | *0%* |

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

# OVERVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Highlights for the three months ended March 31, 2018 ("Q1 2018), in comparison to the three months ended March 31, 2017 ("Q1 2017") for CES are as follows:

- Q1 2018 revenue of $300.3 million is the highest revenue quarter in the Company's history, exceeding the previous record set in Q4 2017 of $278.8 million. The record revenue and the other financial results reported herein for the Q1 2018 are reflective of the continued improvement in activity levels, and market conditions in response to improving commodity prices. The pick-up in activity is most evident in the US. Canada's participation has been muted because of structural issues and relatively low natural gas prices. Despite increased activity, trough pricing levels continue to persist in CES' business lines, but the increase in activity has allowed CES to sell higher volumes of its products across its rationalized cost structure, and as a result, the financial results of CES in Q1 2018 have generally improved in comparison to the results achieved in Q1 2017.

- Q1 2018 revenue of $300.3 million is an increase of $47.9 million or 19% compared to $252.4 million in revenue for Q1 2017. EBITDAC for Q1 2018 was $41.4 million as compared to $36.1 million for Q1 2017, representing an increase of $5.3 million or 15%. Year-over-year, the Company's operating results continued to benefit from increased activity levels due to the improved commodity price environment. As detailed below, in Q1 2018 all of the CES' business' in Canada and the US have made positive contributions to revenue and EBITDAC.

- Revenue generated in the US for Q1 2018 was $179.5 million compared to $141.7 million for Q1 2017, an increase of $37.8 million or 27%. This year over year increase is as a result of the improved market conditions in Q1 2018 with significant activity improvement in the drilling fluids business, and increased US Treatment Points, particularly in the Permian Basin. Offsetting these gains for Q1 2018 was the negative impact of the devaluation of the US Dollar ("USD") versus the Canadian Dollar ("CAD") in the current quarter on translation of the Company's US source revenues, compared to Q1 2017.

- Revenue generated in Canada for Q1 2018 was $120.9 million compared to $110.7 million for Q1 2017, an increase of $10.2 million or 9%. PureChem contributed the majority of this gain as it continued to increase market share in Canada in the production chemicals business. Canadian Treatment Points for Q1 2018 have increased 21% from the comparative period. CES' drilling fluids business in Canada faced challenges in Q1 2018, due to an early Spring break-up and decreased activity in the Deep Basin driven by lower gas prices. Despite these challenges, with the addition of HDD pipeline crossing revenue, revenues for CES' drilling fluids business in Canada remained relatively flat when compared to Q1 2017.

- In Q1 2018, CES recorded Cash Gross Margin of $79.9 million or 27% of revenue, compared to Cash Gross Margin of $69.3 million or 27% of revenue generated in Q1 2017. CES continues to benefit from operating leverage in our consumable chemicals business model, and the positive effects of the cost reduction initiatives taken in 2016. These gains were offset by cost inflation incurred in Q1 2018, which outpaced the Company's ability to pass through its input costs to its customers for its products and services. As a result, Cash Gross Margin as a percentage of revenue in Q1 2018 remained flat from Q1 2017, and is slightly down sequentially from Q4 2017. Refer to "Non-GAAP Measures" for further detail on Cash Gross Margin.

- CES recorded net income of $13.3 million in Q1 2018 as compared to a net income of $7.8 million in Q1 2017. CES recorded net income per share of $0.05 ($0.05 diluted) in Q1 2018 versus a net income per share of $0.03 ($0.03 diluted) in Q1 2017. The respective year-over-year increase in net income in Q1 2018 resulted from the factors discussed above, as well as lower depreciation and amortization charges, and a higher unrealized derivative gain in the quarter.

- At March 31, 2018, CES had a net draw of $116.3 million on its Senior Facility (December 31, 2017 – $109.3). The maximum available draw on the Senior Facility at March 31, 2018 was $165.0 million (December 31, 2017 - $165.0 million). In response to increased activity levels, CES continues to build working capital, as at the date of this MD&A, the Company had a net draw of approximately $115.0 on its Senior Facility. At March 31, 2018, CES is in compliance with the terms and covenants of its Senior Facility.

- At March 31, 2018, the Company had $300.0 million of outstanding principal on unsecured Senior Notes due on October 21, 2024 (December 31, 2017 - $300.0 million). The Senior Notes bear interest of 6.375% per annum and interest is payable on the Senior Notes semi-annually on April 21st and October 21st. The Company has the option to redeem all of its outstanding Senior Notes on or after October 21, 2020. At March 31, 2018, CES is in compliance with terms and covenants of its Senior Notes.

- CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $368.9 million as at March 31, 2018 (December 31, 2017 – $350.5 million), and Net Debt of $53.2 million as at March 31, 2018 (December 31, 2017 - $63.9 million), with the decrease in Net Debt, a result of the working capital build-up in the business more than offsetting the increased draws on the Company's Senior Facility.

- During Q1 2018, CES declared dividends totalling $0.0075 per share as compared to $0.0075 per share for Q1 2017. During Q1 2018, the Company's Payout Ratio averaged 7% as compared to 8% in Q1 2017. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

# RESULTS FOR THE PERIODS

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | **2018** | 2017 | $ Change | % Change |
| Revenue | **300,318** | 252,352 | 47,966 | 19% |
| Cost of sales | **229,713** | 192,567 | 37,146 | 19% |
| Gross margin | **70,605** | 59,785 | 10,820 | 18% |
| Gross margin percentage of revenue | **24%** | 24% | | |
| General and administrative expenses | **49,356** | 45,440 | 3,916 | 9% |
| Finance costs | **5,156** | 6,745 | (1,589) | (24%) |
| Other loss (income) | **1** | (4) | 5 | nmf |
| Income before taxes | **16,092** | 7,604 | 8,488 | 112% |
| Current income tax expense | **1,321** | 2,561 | (1,240) | (48%) |
| Deferred income tax expense (recovery) | **1,521** | (2,735) | 4,256 | nmf |
| Net income | **13,250** | 7,778 | 5,472 | 70% |
| *Net income per share – basic* | ***0.05*** | *0.03* | *0.02* | 67% |
| *Net income per share – diluted* | ***0.05*** | *0.03* | *0.02* | 67% |
| EBITDAC [(1)] | **41,390** | 36,107 | 5,283 | 15% |

| ***Common Shares Outstanding*** | **2018** | 2017 | % Change |
|---|---|---|---|
| End of period | **268,424,065** | 264,825,562 | 1% |
| Weighted average | | | |
| - basic | **268,178,300** | 264,169,358 | 2% |
| - diluted | **274,569,434** | 272,554,790 | 1% |

| | As at | | |
|---|---|---|---|
| ***Financial Position ($000s)*** | **March 31, 2018** | December 31, 2017 | % Change |
| Net working capital | **368,996** | 350,475 | 5% |
| Total assets | **1,184,941** | 1,140,667 | 4% |
| Long-term financial liabilities [(2)] | **422,205** | 414,384 | 2% |
| Net Debt [(1)] | **53,209** | 63,909 | (17%) |
| Shareholders' equity | **630,402** | 593,198 | 6% |

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

### *Revenue and Operating Activities*

CES generated record quarterly revenue of $300.3 million during Q1 2018, compared to $252.4 million for Q1 2017, an increase of $47.9 million or 19%. Geographical revenue information relating to the Company's activities is as follows:

| | Revenue | |
|---|---|---|
| | Three Months Ended March 31, | |
| *$000s* | **2018** | 2017 |
| United States | **179,462** | 141,693 |
| Canada | **120,856** | 110,659 |
| | **300,318** | 252,352 |

Revenue generated in the US for the three months ended March 31, 2018 increased by $37.8 million or 27% compared to the three months ended March 31, 2017 from $141.7 million to $179.5 million. This year over year increase is as a result of the improved market conditions in 2018 with significant activity improvement in the drilling fluids business, a pick-up in frac chemical sales and improved production chemical sales. As noted below, US Operating Days in Q1 2018 increased by 34% over Q1 2017, while Treatment Points increased by 10%. Offsetting these gains in Q1 2018 was the negative impact of the devaluation of the USD versus the CAD in the quarter on translation of the Company's US source revenues, compared to Q1 2017.

Revenue generated in Canada for the three months ended March 31, 2018 increased by $10.2 million or 9% compared to the three months ended March 31, 2017, from $110.7 million to $120.9 million. PureChem contributed the majority of this increase as it continued to gain market share in Canada for production and specialty chemicals. Canadian Treatment Points for Q1 2018 have increased 21%, from Q1 2017. Offsetting these activity gains, the drilling fluids business decreased its operating days by 11% over Q1 2017. CES' drilling fluids business in Canada faced challenges in Q1 2018, due to an early Spring break-up and decreased activity in the Deep Basin driven by lower gas prices. The Company achieved Canadian DF Market Share for its drilling fluids business of 34% for the three months ended March 31, 2018, as compared with 38% for the three months ended March 31, 2017. Despite these challenges, with the addition of HDD pipeline crossing revenue, overall revenues for CES' drilling fluids business in Canada remained relatively flat when compared to Q1 2017. CES expects to maintain its leading drilling fluids market share but future Canadian DF Market Share will be dependent on our customers' risk appetite and future spending levels.

Included in revenue generated in Canada for the three months ended March 31, 2018, is $2.7 million (2017 –$4.1 million) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business has evolved from being primarily levered to drilling activity to a vertically integrated environmental service provider. With a variety of services, revenue can fluctuate with exposure to large scale, short duration jobs as was apparent in Q1 2018. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

A summary industry of rig counts and Operating Days for the three months ended March 31, 2018, is as follows:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | % Change |
| Canadian industry rig count [1] | **264** | 252 | 5% |
| US industry rig count [2] | **950** | 719 | 32% |

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

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | % Change |
| Canada | **8,048** | 9,007 | (11%) |
| US | **9,991** | 7,461 | 34% |
| Total Operating Days [1] | **18,039** | 16,468 | 10% |

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

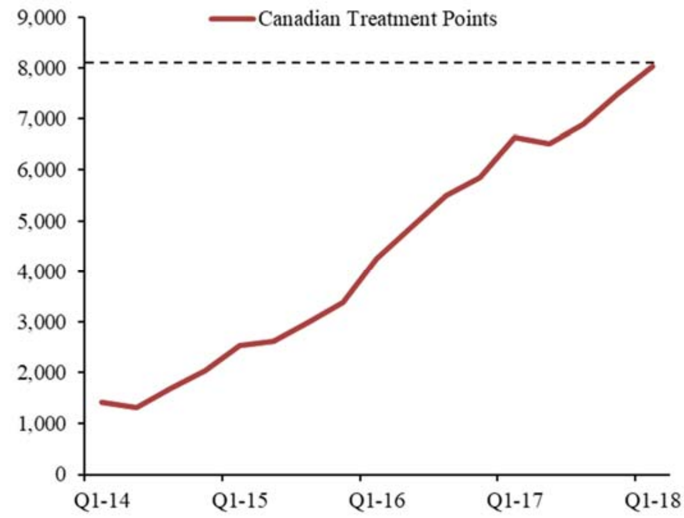
The following table summarizes estimated Treatment Points during the three months ended March 31, 2018 as compared to Q1 2017:

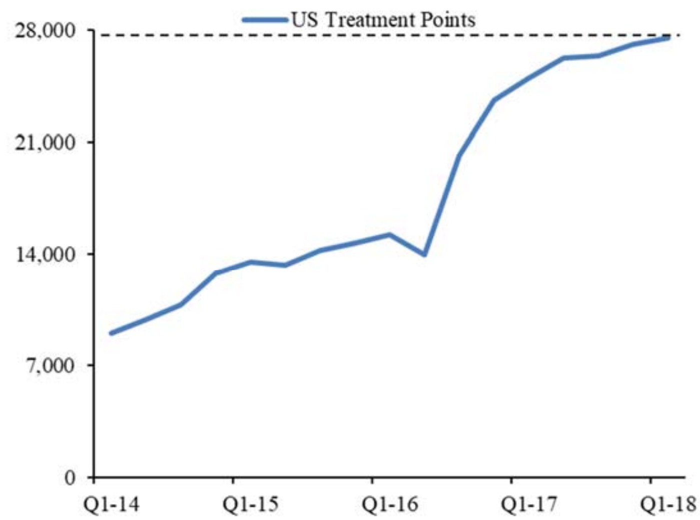
| | Three Months Ended March 31, | | |
|---|---|---|---|
| | **2018** | 2017 | % Change |
| Canada | **8,034** | 6,642 | 21% |
| US | **27,489** | 24,977 | 10% |
| Total Treatment Points [1] | **35,523** | 31,619 | 12% |

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

As evidenced by the graphs below, US Treatment Points and Canadian Treatment Points have continued to trend upwards as the Company continues to gain market share in the production and specialty chemical markets in both Canada and the US.

**Quarterly Treatment Points**




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

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Top five customers as a % of total revenue | **25%** | 27% |
| Top customer as a % of total revenue | **10%** | 12% |

***Cost of Sales and Gross Margin***

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

Gross margin and Cash Gross Margin for the three months ended March 31, 2018 and 2017 are as follows:

| *$000s* | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Gross margin | **70,605** | 59,785 |
| as a percentage of revenue | **24%** | 24% |
| Add back (deduct): | | |
| Depreciation included in cost of sales | **9,561** | 9,123 |
| (Gain) loss on disposal of assets included in cost of sales | **(224)** | 370 |
| Cash Gross Margin (1) | **79,942** | 69,278 |
| as a percentage of revenue | **27%** | 27% |

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

In Q1 2018, CES recorded Cash Gross Margin of $79.9 million or 27% of revenue, compared to Cash Gross Margin of $69.3 million or 27% of revenue generated in Q1 2017. Although activity levels have largely improved throughout the industry, pricing pressure from customers persists and the Company continues to sell its products and services at trough pricing levels. With the exception of the pass-through of certain cost increases like labour and commodity inputs, CES has yet to benefit from any broad based price increases to its customers. During Q1 2018, cost inflation has started to outpace the combination of CES' operating leverage gains and CES' ability to pass cost increases through to customers, which is evidenced by a drop in Cash Gross Margin sequentially from 28% in Q4 2017 to 27% in Q1 2018, a decrease of 1%.

***General and Administrative Expenses ("G&A")***

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| General and administrative expenses | **49,356** | 45,440 |
| as a percentage of revenue | **16%** | 18% |
| Deduct non-cash expenses included in general & administrative expenses: | | |
| Stock-based compensation | **6,099** | 5,870 |
| Depreciation & amortization | **5,580** | 7,276 |
| Cash General and Administrative Costs [1] | **37,677** | 32,294 |
| as a percentage of revenue | **13%** | 13% |

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

On an absolute basis, Cash General and Administrative Costs increased in Q1 2018 as compared to Q1 2017. As the industry continues to rebound, it is expected that Cash General and Administrative Costs 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. However, since Q1 2017 sequentially quarter over quarter, the Company's Cash General and Administrative costs have remained relatively consistent as a percentage of revenue at 13%.

***Depreciation and Amortization***

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| Depreciation recorded in cost of sales: | | |
| Depreciation expense on property and equipment | **9,561** | 9,123 |
| Depreciation and amortization recorded in G&A: | | |
| Amortization expense on intangible assets | **4,340** | 5,937 |
| Depreciation expense on property and equipment | **1,240** | 1,339 |
| | **5,580** | 7,276 |
| Total depreciation and amortization expense | **15,141** | 16,399 |

The decrease in depreciation and amortization expense compared to Q1 2017 is as a result of intangible assets relating to the Fluids Management acquisition in June 2010 becoming fully amortized prior to Q1 2018. Further, US source depreciation and amortization costs decreased as a result of the stronger CAD versus USD on translation in Q1 2018 when compared to Q1 2017.

***Finance Costs***

For the three months ended March 31, 2018 and 2017, finance costs were comprised of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| *$000s* | **2018** | 2017 |
| Realized foreign exchange loss (gain) | **383** | (80) |
| Unrealized foreign exchange loss (gain) | **78** | (42) |
| Realized financial derivative loss | **492** | 957 |
| Unrealized financial derivative gain | **(2,109)** | (620) |
| Amortization of debt issue costs and premium | **316** | 321 |
| Interest on debt, net of interest income | **5,995** | 6,040 |
| Other finance costs | **1** | 169 |
| Finance costs | **5,156** | 6,745 |

*Foreign exchange gains and losses*

Finance costs for the three months ended March 31, 2018 include a realized and unrealized net foreign exchange loss totalling $0.5 million (2017 – net gain of $0.1 million), primarily related to foreign exchange losses on the Company's USD denominated payables and cash balances held in Canada.

*Derivative gains and losses*

Finance costs for Q1 2018 included $0.5 million of realized derivative loss on expiring $USD purchase contracts entered into in 2017, negatively impacting EBITDAC for the quarter.

Unrealized derivative gain, which does not impact EBITDAC, on remaining outstanding $USD purchase contracts as of Q1 2018 is $2.1 million, as compared to $0.6 million in Q1 2017. As of March 31, 2018, the Company had a financial derivative asset of net $1.6 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 March 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 and US operations:

| **Period** | **Notional Balance USD$000s** | **Contract Type** | **Settlement** | **Average USDCAD Exchange Rate** |
|---|---|---|---|---|
| April 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1752 |
| May 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1753 |
| June 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1755 |
| July 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1759 |
| August 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1760 |
| September 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1761 |
| October 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1764 |
| November 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1766 |
| December 2018 | US$1,500 | Deliverable Forward | Physical Purchase | $1.1769 |
| January 2019 | US$1,000 | Deliverable Forward | Physical Purchase | $1.2286 |
| February 2019 | US$1,000 | Deliverable Forward | Physical Purchase | $1.2285 |
| Total | US$15,500 | | | $1.1828 |

*Interest expense*

Interest on debt, net of interest income in the table above, consists of interest expense on finance lease obligations, the Senior Facility and the Senior Notes, and excludes any non-cash amortization of debt issue costs and premium on both the Senior Notes and the Senior Facility. Finance costs for the three months ended March 31, 2018 include interest on debt, net of interest income, of $5.2 million (2017 – $6.7 million). Specifically 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. Total interest expense relating to the Company's Senior Facility during Q1 2018 is $1.1 million, as compared to $0.6 million in Q1 2017. The increase 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 in Q1 2018 was $4.7 million, as compared to $5.4 million in Q1 2017. Further details are outlined in the Liquidity and Capital Resources section of this MD&A.

***Current and Deferred Income Taxes***
Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three months ended March 31, 2018 and 2017, income tax expense (recovery) was comprised of the following:

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's* | **2018** | 2017 |
| Current income tax expense | **1,321** | 2,561 |
| Deferred income tax expense (recovery) | **1,521** | (2,735) |
| Total income tax expense (recovery) | **2,842** | (174) |

The year-over-year decrease in current income tax expense is primarily related to a decrease in taxable income in Canada as a result of additional deferred financing costs incurred in FY 2017 and decreased operating income in Canada in Q1 2018. The year-over-year increase in deferred income tax expense is primarily due to the recognition of accelerated tax depreciation in the US and a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

***Net Working Capital & Net Debt***
At March 31, 2018, the Company had a net draw of $116.3 million on its Senior Facility. CES continued to maintain a strong statement of financial position or "balance sheet" as at March 31, 2018, with positive net working capital of $368.9 million (December 31, 2017 - $350.5 million). The increase in working capital from December 31, 2017 is primarily due to increased activity levels across all facets of the business and is comprised of the following: a $16.9 million increase in inventory, a $1.5 million increase in prepaid expenses, a $1.6 million increase in the financial derivative asset, a $4.2 million decrease in current deferred acquisition consideration, offset by a $1.9 million increase in accounts payable, a $2.4 million decrease in accounts receivable and a $1.1 million increase in income taxes payable.

At March 31, 2018, the Company had Net Debt of $53.2 million as compared to $63.9 million at December 31, 2017, with the decrease a result of working capital build-up in the business more than offsetting the increased draw on the Company's Senior Facility.

***Total Long-Term Assets***
Year-over-year, total long-term assets of CES increased by $29.7 million to $689.7 million at March 31, 2018 from $662.9 million at December 31, 2017. This increase in long-term assets is partially offset with a decline in USD denominated long-term assets on translation as a result of a strengthening CAD since December 31, 2017.

***Long-Term Financial Liabilities***
CES had long-term debt totalling $409.6 million at March 31, 2018, compared to $402.4 million at December 31, 2017, an increase of $7.2 million. The increase in long-term debt is primarily as a result of increased borrowings on the Senior Facility during the period, due to the increased activity levels and the build-up of working capital to meet growing customer demands. Additional discussion relating to the Company's Senior Facility is included in the Liquidity and Capital Resources section of this MD&A.

At March 31, 2018, long-term debt liabilities were comprised of the following balances:

| | As at | |
|---|---|---|
| *$000s* | **March 31, 2018** | December 31, 2017 |
| Senior Facility | **116,912** | 109,926 |
| Senior Notes | **300,000** | 300,000 |
| | **416,912** | 409,926 |
| Less net unamortized debt issue costs | **(7,283)** | (7,505) |
| Long-term debt | **409,629** | 402,421 |

At March 31, 2018, the Company had finance lease liabilities of $21.5 million, of which $9.1 million pertained to the current portion of the obligation, representing a total increase of $1.6 million from December 31, 2017.

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

| *$000s* | |
|---|---|
| Less than 1 year | **10,411** |
| 1-5 years | **12,443** |
| 5+ years | **-** |
| Total lease payments | **22,854** |
| Amount representing implicit interest | **(1,348)** |
| Finance lease obligations | **21,506** |
| Less: current portion of finance lease obligations | **(9,080)** |
| Long-term finance lease obligations | **12,426** |

During the three months ended March 31, 2018, the Company made long-term scheduled debt and lease repayments totalling $2.2 million on its finance leases.

***Shareholders' Equity***

Shareholders' equity increased by $37.2 million from $593.2 million at December 31, 2017 to $630.4 million at March 31, 2018. The increase in shareholders' equity is primarily attributable to the $13.3 million net income for the period, $6.1 million in contributed surplus related to stock-based compensation expense, and $2.9 million relating to the issuance of equity under the Company's stock-based compensation plans, and a $18.9 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries as CAD strengthened from December 31, 2017 to March 31, 2018. The increase was offset by a $2.0 million of dividends declared by the Company during the period, and $1.9 million reclassified from contributed surplus for stock-based compensation plans.

## QUARTERLY FINANCIAL SUMMARY

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | **Mar 31, 2018** | Dec 31, 2017 | Sep 30, 2017 | Jun 30, 2017 |
| Revenue | **300,318** | 278,831 | 260,881 | 237,576 |
| Gross margin | **70,605** | 67,606 | 63,876 | 58,534 |
| Net income | **13,250** | 2,681 | 19,437 | 6,345 |
| *per share– basic* | ***0.05*** | *0.01* | *0.07* | *0.02* |
| *per share– diluted* | ***0.05*** | *0.01* | *0.07* | *0.02* |
| EBITDAC [1] | **41,390** | 41,366 | 39,073 | 35,317 |
| *per share– basic* | ***0.15*** | *0.15* | *0.15* | *0.13* |
| *per share– diluted* | ***0.15*** | *0.15* | *0.14* | *0.13* |
| Funds Flow From Operations [1] | **34,084** | 35,497 | 38,518 | 28,626 |
| *per share– basic* | ***0.13*** | *0.13* | *0.14* | *0.11* |
| *per share– diluted* | ***0.12*** | *0.13* | *0.14* | *0.11* |
| Dividends declared | **2,010** | 2,009 | 2,000 | 1,990 |
| *per share* | ***0.0075*** | *0.0075* | *0.0075* | *0.0075* |
| *Shares Outstanding* | | | | |
| End of period | **268,424,065** | 267,935,090 | 267,582,964 | 265,614,138 |
| Weighted average – basic | **268,178,300** | 267,591,866 | 266,323,406 | 265,190,677 |
| Weighted average – diluted | **274,569,434** | 273,782,857 | 273,036,297 | 272,217,498 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 | Jun 30, 2016 |
| Revenue | 252,352 | 187,704 | 145,140 | 97,733 |
| Gross margin | 59,785 | 39,983 | 32,134 | 15,754 |
| Net income (loss) | 7,778 | (3,973) | (11,387) | (25,597) |
| *per share– basic* | *0.03* | *(0.02)* | *(0.04)* | *(0.11)* |
| *per share– diluted* | *0.03* | *(0.02)* | *(0.04)* | *(0.11)* |
| EBITDAC [1] | 36,107 | 23,134 | 16,580 | (689) |
| *per share– basic* | *0.14* | *0.09* | *0.06* | - |
| *per share– diluted* | *0.13* | *0.09* | *0.06* | - |
| Funds Flow From Operations [1] | 27,523 | 16,973 | 11,699 | (10,488) |
| *per share– basic* | *0.10* | *0.06* | *0.05* | *(0.05)* |
| *per share– diluted* | *0.10* | *0.06* | *0.05* | *(0.05)* |
| Dividends declared | 1,983 | 1,965 | 1,943 | 1,749 |
| *per share* | *0.0075* | *0.0075* | *0.0075* | *0.0075* |
| *Shares Outstanding* | | | | |
| End of period | 264,825,562 | 262,300,999 | 261,665,788 | 253,867,856 |
| Weighted average – basic | 264,169,358 | 261,840,909 | 258,964,524 | 230,573,931 |
| Weighted average – diluted | 272,554,790 | 261,840,909 | 258,964,524 | 230,573,931 |

***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.

# LIQUIDITY AND CAPITAL RESOURCES

CES continues to maintain a strong statement of financial position or "balance sheet" with positive net working capital of $368.9 million as at March 31, 2018 (December 31, 2017 – $350.5 million). At March 31, 2018, the Company had Net Debt of $53.2 million, a decrease from $63.9 million at December 31, 2017. Net Debt is calculated as follows:

| | As at | |
|---|---|---|
| *$000's* | **March 31, 2018** | December 31, 2017 |
| Long-term financial liabilities[1] | **422,205** | 414,384 |
| Current portion of finance lease obligations | **9,080** | 8,413 |
| Total indebtedness | **431,285** | 422,797 |
| Deduct working capital surplus: | | |
| Current assets | **495,279** | 477,809 |
| Current liabilities[2] | **(117,203)** | (118,921) |
| Working capital surplus | **378,076** | 358,888 |
| Net Debt | **53,209** | 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 obligations.*
[3] *Refer to the "Non-GAAP Measures" for further detail.*

Although total indebtedness has increased in Q1 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 more than offset by the growth in working capital in the year.

***Senior Facility***
As at March 31, 2018, the Company has a syndicated senior facility (the "Senior Facility") which allows the Company to borrow up to $165.0 million. The Senior Facility is comprised of a Canadian facility of $125.0 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.

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.

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

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

- Net Senior Debt is defined as Total Net Funded Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered

reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.

- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

As at March 31, 2018, CES was in compliance with the terms and covenants of its Senior Facility, calculated as follows:

| | As at | |
|---|---|---|
| *$000s* | **March 31, 2018** | December 31, 2017 |
| Net Senior Funded Debt | **140,171** | 130,376 |
| EBITDA for the four quarters ended | **157,245** | 152,414 |
| Ratio | **0.891** | 0.855 |
| Maximum | **2.500** | 2.500 |
| | | |
| EBITDA for the four quarters ended | **157,245** | 152,414 |
| Interest Expense for the four quarters ended | **26,402** | 26,366 |
| Ratio | **5.956** | 5.781 |
| Minimum | **2.500** | 2.500 |

As of March 31, 2018, the maximum available draw on the amended Senior Facility was \$165.0 million (December 31, 2016 - \$165.0 million), and the Company had a net draw of \$116.3 million (December 31, 2017 – \$109.3 million), with capitalized transaction costs of \$0.6 million (December 31, 2017 – \$0.7 million).

***Senior Notes***

At March 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 the date of this MD&A, the Senior Notes were trading over par. As at March 31, 2018, the Company was in compliance with the terms and covenants of its lending agreements.

***Other Indebtedness***

In addition to the above, CES has non-bank vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.14%, and have termination dates ranging from May 2018 through February 2022. At March 31, 2018, outstanding vehicle and equipment finance lease obligations totalled \$21.5 million as compared to \$19.9 million at December 31, 2017.

The following table details the remaining contractual maturities of the Company's financial liabilities as of March 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 | 114,612 | - | - | - | - | **114,612** |
| Dividends payable [2] | 671 | - | - | - | - | **671** |
| Income taxes payable | - | 1,550 | - | - | - | **1,550** |
| Deferred acquisition consideration | 4,550 | - | - | 520 | - | **5,070** |
| Senior Notes [4] | - | - | - | - | 300,000 | **300,000** |
| Interest on Senior Notes | - | 19,125 | 19,177 | 57,323 | 33,534 | **129,159** |
| Finance lease obligations at floating interest rates [3] | 1,451 | 7,629 | 8,444 | 3,982 | - | **21,506** |
| Office and facility rent, and other | 2,460 | 6,814 | 6,822 | 8,970 | 2,834 | **27,900** |
| | 123,744 | 35,118 | 34,443 | 70,795 | 336,368 | **600,468** |

***Notes:***

[1] *Payments denominated in foreign currencies have been translated using the appropriate March 31, 2018 exchange rate.*

[2] *Dividends declared as of March 31, 2018.*

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

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

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

### *Cash Flows from Operating Activities*

For the three months ended March 31, 2018, cash flow from operating activities was an inflow of $23.6 million compared to an outflow of $34.3 million during the three months ended March 31, 2017, with the increase being primarily as a result of the change in non-cash working capital, and increased operating income resulting from activity growth. Funds Flow From Operations takes into consideration changes in non-cash working capital and represents the Company's after tax operating cash flows. For the three months ended March 31, 2018, Funds Flow From Operations was $34.1 million, compared to $27.5 million for the three months ended March 31, 2017. The increase in Funds Flow from Operations from Q1 2017 to Q1 2018 is largely as a result of the increase in activity in the quarter, positively impacting operating cash flows.

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's* | **2018** | 2017 |
| Cash provided by operating activities | **23,575** | (34,318) |
| Adjust for: | | |
| Change in non-cash operating working capital | **10,509** | 61,841 |
| Funds Flow From Operations [1] | **34,084** | 27,523 |

***Notes:***

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

### *Cash Flows from Investing Activities*

For the three months ended March 31, 2018, net cash outflows from investing activities totalled $27.1 million, an increase from the $19.9 million outflow from investing activities during the three months ended March 31, 2017, primarily as a result of increased capital expenditures on property and equipment of $4.8 million, and increased capital expenditures on intangible assets of $2.8 million.

For the three months ended March 31, 2018, $15.6 million was spent on property and equipment (net of $3.5 million in vehicle finance leases). During the quarter, CES had $13.9 million of additions related to Expansion Capital including asset and vehicle financing. Notable expansion additions during the quarter ended March 31, 2018 include: $3.4 million for warehouse and facilities, $0.4 million for machinery and field equipment, $1.6 million for vehicles, $3.7 million in trucks and trailers, $1.4 million for tanks, $2.9 million for processing equipment, and $0.5 million for other expansion additions.

Expansion Capital expenditures in Q1 2018 were primarily related to the continued expansion of the JACAM, Catalyst, and PureChem facilities.

For the three months ended March 31, 2018, CES had $5.4 million of additions related to Maintenance Capital including asset and vehicle financing. Notable maintenance additions during the quarter ended March 31, 2018 include: $2.3 million for vehicles, $1.3 million for trucks and trailers, and $1.8 million for other maintenance additions. The increase in maintenance capital in Q1 2018 over prior year, is primarily due to timing for the replacement of vehicles, in accordance with the Company's fleet policies.

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's* | **2018** | 2017 |
| Expansion Capital [(1)] | **13,982** | 10,212 |
| Maintenance Capital [(1)] | **5,393** | 3,865 |
| Other capital expenditures [(2)] | **1,968** | - |
| Total investment in property and equipment | **21,343** | 14,077 |
| Asset financing and leases | **(3,532)** | (3,754) |
| Capital expenditures | **17,811** | 10,323 |
| Change in non-cash investing working capital | **(2,178)** | 535 |
| Cash used for investment in property and equipment | **15,633** | 10,858 |

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

Historically, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2018, CES's expected non-acquisition related capital expenditures are estimated at this time to be approximately $68.0 million, of which an estimated $18.0 million will be maintenance capital additions, and an estimated $50.0 million will be for expansion capital additions.

### *Cash Flows from Financing Activities*

For the three months ended March 31, 2018, cash flows from financing activities totalled a cash inflow of $3.6 million compared to a cash inflow of $40.8 million in Q1 2017. This year-over-year change is due to the more intense build up of working capital in Q1 2017 compared to Q1 2018, as industry activity ramped up considerably in 2017, resulting in a higher draw on the Senior Facility.

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

| | Three Months Ended March 31, | |
|---|---|---|
| *$000's* | **2018** | 2017 |
| Cash provided by operating activities | **23,575** | (34,318) |
| Adjust for: | | |
| Change in non-cash operating working capital | **10,509** | 61,841 |
| Funds Flow From Operations [(1)] | **34,084** | 27,523 |
| less: Maintenance Capital [(2)] | **(5,393)** | (3,865) |
| Distributable Earnings [(1)] | **28,691** | 23,658 |
| Dividends declared | **2,010** | 1,983 |
| Payout Ratio [(1)] | **7%** | 8% |

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

Distributable Earnings were $28.7 million for the three months ended March 31, 2018, compared with $23.7 million for Q1 2017. During the three months ended March 31, 2018, CES declared monthly dividends totalling $0.0075 per share for the quarter. During the first quarter of 2018, the Payout Ratio was 7% as compared to 8% for the same quarter of 2017.

### *Dividend Policy*

The Company declared dividends to holders of common shares for the three months ended March 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** |
| Total dividends declared during the year | | | $0.0075 | **2,010** |

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

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

Subsequent to March 31, 2018, the Company declared dividends to holders of common shares in the amount of $0.0025 per common share paid May 15, for shareholders of record on April 30, 2018. CES will continue to be protective of its balance sheet and provide liquidity to fund potential growth initiatives by being prudent with its cash dividend going forward, particularly if the volatility in the oil price environment continues.

***Shareholders' Equity***
As March 31, 2018, CES had a total of 268,424,065 common shares outstanding. As of the date of this MD&A, CES had a total of 268,640,727 common shares outstanding.

***Stock-based Compensation***
As at March 31, 2018, a total of 26,842,407 common shares were reserved for issuance under the Company's Restricted Share Unit Plan, which has a sub-limit of 5% of common shares outstanding, Share Rights Incentive Plan, and Stock Settled Director Fee Program, of which 6,124,919 common shares remained available for grant.

*a) Share Rights Incentive Plan ("SRIP")*
At March 31, 2018, a total of 14,414,645 Share Rights were outstanding (December 31, 2017 – 14,875,400) at a weighted average exercise price of $6.37 (assuming all SRIP's are exercised at their respective original exercise price) of which 7,067,377 were exercisable. As of the date of this MD&A, an aggregate 14,315,645 Share Rights remaining outstanding, of which 6,988,377 are exercisable.

*b) Restricted Share Unit Plan ("RSU")*
At March 31, 2018, a total of 6,302,842 Restricted Share Units were outstanding (December 31, 2017 – 4,706,493) at a weighted average issuance price of $5.95, none of which have vested. As of the date of this MD&A, an aggregate of 6,108,593 Restricted Share Units remain outstanding.

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

| *$000s* | **2018 - 9 months** | **2019** | **2020** | **2021** | **2022** | **Total** |
|---|---|---|---|---|---|---|
| Office and facility rent, and other | 6,814 | 6,822 | 4,518 | 3,071 | 1,381 | **22,606** |

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

# 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' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2017, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2017.

# RECENT ACCOUNTING PRONOUNCEMENTS

***Newly Adopted Accounting Standards***

*Revenue from Contracts with Customers*

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 our 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 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 we operate, being the US and Canada.

*Financial Instruments*

CES retrospectively adopted IFRS 9, *"Financial Instruments",* on January 1, 2018. The adoption of the standard has not resulted in any changes to the Company's financial statements and the classification and measurement of financial instruments has been conformed to IFRS 9. 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. 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 9.

***Future accounting policy changes***

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined which may have an impact on the Company. In January 2016, the IASB issued IFRS 16, "Leases" which replaces IAS 17, "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company plans to adopt IFRS 16 on January 1, 2019 and is currently assessing the potential impact of this adoption on the Company's financial statements.

# CORPORATE GOVERNANCE

***Disclosure Controls and Procedures ("DC&P")***

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

***Internal Controls over Financial Reporting ("ICFR")***

Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes to CES' internal controls over financial reporting during the three months ended March 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' 2017 Annual Report, CES' Annual Information Form dated March 1, 2018 in respect of the year ended December 31, 2017, and CES' Information Circular in respect to the June 15, 2017 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

## RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS

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

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

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, 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. 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 by the recently elected Trump administration, including, but not limited to, the renegotiation of international trade agreements; the potential changes to US trade policies; and tax reform. Despite CES' successful re-financing of its $300.0 million Senior Notes in October 2017, in general since the fall of 2014 there has been a retreat in the energy capital markets as a result of low commodity prices. As such it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit without significant costs. CES is also reliant on its Senior Facility to fund working capital and other growth initiatives. As noted in this MD&A, CES has successfully renewed and extended its Senior Facility but in the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. At March 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. It is possible that the Company's insurance coverage will not be sufficient to address the costs arising out of the allocation of liabilities and risk of loss.

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

The provincial governments of Alberta, British Columbia, Manitoba, and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. In addition, the Alberta Government has implemented a carbon levy and at the federal level, the Canadian government has also indicated that it plans to pursue a carbon pricing scheme that will backstop any applicable provincial carbon pricing framework. As an oilfield service company, CES is not a large-scale emitter of greenhouse gasses and does not anticipate the impact of these regulations to be material to its operations. However, the carbon levy may have a material impact on oil and gas producers, which could result in a material adverse effect on demand for CES' products and services. In addition, the potential for future changes in these and other jurisdictions for additional royalties, levies and other taxes, and other climate change related taxes is an on-going risk for the oilfield services sector.

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

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

Reference should be made to CES' Annual Information Form dated March 1, 2018 for the year ended December 31, 2017, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

# OUTLOOK

CES is very optimistic about its prospects for the rest of 2018 and beyond. CES' record Q1 2018 revenue result reflects its effective execution in a dynamic environment and CES' strategy has positioned it 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 then bring on to production high volume multi-well pads. After accounting for the additional challenges facing our Canadian customers, CES sees the US market and in particular the Permian Basin having the most near-term opportunities for growth. CES' strategy is to utilize its decentralized management model; its vertically integrated manufacturing model; its problem solving through science approach; its patented and proprietary technologies; and its superior 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 in this recovery period. CES believes that its unique value proposition makes it the premier independent provider of technically advanced consumable chemical solutions to the North American oilfield.

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

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

# ADDITIONAL INFORMATION

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

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

OTC
Trading Symbol: CESDF

**BOARD OF DIRECTORS**
Kyle D. Kitagawa[1,2,4]
Chairman

D. Michael G. Stewart[1,4]

John M. Hooks[2,4]

Rodney L. Carpenter[3]

Burton J. Ahrens[1,4]

Colin D. Boyer[2,3]

Philip J. Scherman[1]

Stella Cosby[3]

Thomas J. Simons

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

**OFFICERS**
Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Jason D. Waugh
Vice President

Richard L. Baxter
President, AES Drilling Fluids, LLC

Vernon J. Disney
Chief Operating Officer, Catalyst Oilfield Services 2016, LLC and JACAM Chemical Company 2013, LLC

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.
Calgary, AB and Toronto, ON

**CORPORATE OFFICE**
Suite 1400, 700 – 4th Avenue SW
Calgary, AB T2P 3J4
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

**CANADIAN BUSINESS UNITS**
Canadian Energy Services and PureChem Services
Suite 1400, 700 – 4th Avenue SW
Calgary, AB T2P 3J4
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

Sialco Materials Ltd.
6605 Dennett Place
Delta, BC V4G 1N4
Phone: 604-940-4777
Toll Free: 1-800-335-0122
Fax: 604-940-4757

Clear Environmental Solutions
Suite 720, 736 – 8th Avenue SW
Calgary, AB T2P 1H4
Phone: 403-263-5953
Fax: 403-229-1306

**US BUSINESS UNITS**
AES Drilling Fluids
Suite 230, 11767 Katy Freeway
Houston, TX 77079
Phone: 281-556-5628
Fax: 281-589-7150

JACAM Chemical Company
205 S. Broadway
Sterling, KS 67579
Phone: 620-278-3355
Fax: 620-278-2112

Catalyst Oilfield Services
11999 East Highway 158
Gardendale, TX 79758
Phone: 432-563-0727
Fax: 432-224-1038

**www.cesenergysolutions.com**