



**CES Energy**  
Solutions

**Condensed Consolidated Financial Statements**

**For the Three and Six Months Ended June 30, 2019 and 2018**

**CES Energy Solutions Corp.**

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

	As at	
	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets		
Accounts receivable	262,004	311,222
Financial derivative asset	—	270
Income taxes receivable	830	1,561
Inventory	216,769	238,503
Prepaid expenses and deposits	15,070	13,435
	<b>494,673</b>	<b>564,991</b>
Property and equipment (note 5)	308,815	360,963
Right-of-use assets (note 6)	54,925	—
Intangible assets	67,539	77,143
Deferred income tax asset	6,032	14,352
Other assets	5,061	4,860
Goodwill	290,553	299,500
	<b>1,227,598</b>	<b>1,321,809</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	113,190	125,149
Financial derivative liability	193	—
Dividends payable (note 11)	1,329	1,329
Income taxes payable	1,129	2,892
Current portion of deferred acquisition consideration	150	370
Current portion of lease obligations (note 8)	20,426	14,857
	<b>136,417</b>	<b>144,597</b>
Deferred acquisition consideration	—	150
Long-term debt (note 7)	389,374	455,591
Lease obligations (note 8)	27,329	18,239
Deferred income tax liability	2,746	5,662
	<b>555,866</b>	<b>624,239</b>
Commitments (note 12)		
Shareholders' equity		
Common shares (note 9)	661,385	651,116
Contributed surplus	39,782	47,204
Deficit	(177,422)	(179,993)
Accumulated other comprehensive income	147,987	179,243
	<b>671,732</b>	<b>697,570</b>
	<b>1,227,598</b>	<b>1,321,809</b>

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

**CES Energy Solutions Corp.**Condensed Consolidated Statements of Net Income and Comprehensive (Loss) Income (unaudited)  
(stated in thousands of Canadian dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	<b>312,937</b>	284,317	<b>645,925</b>	584,635
Cost of sales	<b>243,549</b>	216,310	<b>507,382</b>	446,023
Gross margin	<b>69,388</b>	68,007	<b>138,543</b>	138,612
General and administrative expenses	<b>55,199</b>	54,010	<b>106,223</b>	103,366
Operating profit	<b>14,189</b>	13,997	<b>32,320</b>	35,246
Finance costs	<b>7,755</b>	6,130	<b>14,952</b>	11,286
Other loss	<b>135</b>	127	<b>147</b>	128
Income before taxes	<b>6,299</b>	7,740	<b>17,221</b>	23,832
Current income tax expense	<b>748</b>	629	<b>1,640</b>	1,950
Deferred income tax (recovery) expense	<b>(2,810)</b>	(6,048)	<b>5,022</b>	(4,527)
Net income	<b>8,361</b>	13,159	<b>10,559</b>	26,409
Other comprehensive income (items that may be subsequently reclassified to profit and loss):				
Unrealized foreign exchange (loss) gain on translation of foreign operations	<b>(15,924)</b>	14,445	<b>(31,492)</b>	33,380
Change in fair value of other assets, net of tax	<b>31</b>	174	<b>236</b>	129
Comprehensive (loss) income	<b>(7,532)</b>	27,778	<b>(20,697)</b>	59,918
Net income per share (note 9)				
Basic	<b>0.03</b>	0.05	<b>0.04</b>	0.10
Diluted	<b>0.03</b>	0.05	<b>0.04</b>	0.10

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

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

	Six Months Ended June 30,	
	2019	2018
<b>COMMON SHARES</b>		
Balance, beginning of period	651,116	655,028
Issued pursuant to stock-based compensation (note 10)	17,887	9,154
Issued pursuant to stock settled director fee	32	25
Common shares repurchased and canceled through NCIB (note 9)	(7,650)	—
Balance, end of period	661,385	664,207
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	47,204	34,142
Reclassified pursuant to stock-based compensation (note 9)	(17,887)	(8,102)
Stock-based compensation expense (note 10)	10,465	14,203
Balance, end of period	39,782	40,243
<b>DEFICIT</b>		
Balance, beginning of period	(179,993)	(215,021)
Net income	10,559	26,409
Dividends declared (note 11)	(7,988)	(4,701)
Balance, end of period	(177,422)	(193,313)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>		
Balance, beginning of period	179,243	119,049
Unrealized foreign exchange (loss) gain on translation of foreign operations	(31,492)	33,380
Change in fair value of other assets, net of tax	236	129
Balance, end of period	147,987	152,558
	671,732	663,695

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

# CES Energy Solutions Corp.

Condensed Consolidated Statements of Cash Flows (unaudited)  
(stated in thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES:</b>				
Net income	<b>8,361</b>	13,159	<b>10,559</b>	26,409
Adjustments for:				
Depreciation and amortization	<b>19,611</b>	15,376	<b>39,493</b>	30,517
Stock-based compensation (note 10)	<b>4,765</b>	8,104	<b>10,465</b>	14,203
Other loss and non-cash loss (gain)	<b>1,203</b>	1,297	<b>2,120</b>	(406)
Deferred income tax expense	<b>(2,810)</b>	(6,048)	<b>5,022</b>	(4,527)
Gain on disposal of assets	<b>(316)</b>	(427)	<b>(551)</b>	(651)
Change in non-cash working capital (note 13)	<b>32,614</b>	18,106	<b>48,155</b>	7,597
	<b>63,428</b>	49,567	<b>115,263</b>	73,142
<b>FINANCING ACTIVITIES:</b>				
Repayment of lease obligations	<b>(5,461)</b>	(2,449)	<b>(11,134)</b>	(4,677)
(Decrease) increase in Senior Facility	<b>(37,437)</b>	(23,696)	<b>(66,650)</b>	(16,858)
Shareholder dividends	<b>(3,999)</b>	(2,015)	<b>(7,988)</b>	(4,026)
Issuance of shares, net of issuance costs	—	89	—	1,052
Common shares repurchased and cancelled through NCIB (note 9)	<b>(6,607)</b>	—	<b>(7,650)</b>	—
	<b>(53,504)</b>	(28,071)	<b>(93,422)</b>	(24,509)
<b>INVESTING ACTIVITIES:</b>				
Investment in property and equipment	<b>(11,987)</b>	(22,990)	<b>(24,645)</b>	(38,623)
Investment in intangible assets	<b>(564)</b>	(2,285)	<b>(1,211)</b>	(5,778)
Investment in other assets	<b>79</b>	2,633	<b>(403)</b>	2,379
Deferred acquisition consideration	—	—	<b>(337)</b>	(4,550)
Business combinations	—	(939)	—	(5,315)
Proceeds on disposal of assets	<b>2,548</b>	2,085	<b>4,755</b>	3,254
	<b>(9,924)</b>	(21,496)	<b>(21,841)</b>	(48,633)
<b>CHANGE IN CASH</b>				
Cash, beginning of period	—	—	—	—
Cash, end of period	—	—	—	—
<b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>				
Interest paid	<b>11,790</b>	11,003	<b>14,321</b>	12,319
Income taxes paid	<b>1,466</b>	749	<b>2,610</b>	843

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

## **CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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### **1. The Company**

CES Energy Solutions Corp. (the “Company” or “CES”) is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES’ principal place of business is located at Suite 1400, 332 – 6<sup>th</sup> Avenue SW, Calgary, Alberta, Canada T2P 0B2. The condensed consolidated financial statements of the Company as at and for the three and six months ended June 30, 2019 and 2018 comprise the accounts of the Company and its subsidiaries (together referred to as the “Company” or “CES”).

CES’ core business is to design, implement, and manufacture technically advanced consumable fluids and specialty chemicals for the North American oil and gas industry. CES operates under the following trade names and brands: AES Drilling Fluids, JACAM Chemicals, Catalyst Oilfield Services, Superior Weighting Products, Canadian Energy Services, PureChem Services, StimWrx Energy Services, Sialco Materials Ltd, and Clear Environmental Solutions.

### **2. Basis of Presentation**

#### *Statement of Compliance*

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”, following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended December 31, 2018, with exception to the newly adopted International Financial Reporting Standards (“IFRS”) effective January 1, 2019, as discussed in Note 3 below. A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual consolidated financial statements for the year ended December 31, 2018. These unaudited condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2018. These unaudited condensed consolidated financial statements were authorized for issue by the Company’s Board of Directors on August 8, 2019.

### **3. Newly Adopted Accounting Standards**

#### *a) Adoption of IFRS 16 “Leases”*

On January 1, 2019, CES adopted IFRS 16 which replaced IAS 17 “Leases” and related interpretations, using the modified retrospective method which does not require restatement of prior period financial information. Accordingly, comparative information in the Company’s financial statements is not restated. The new standard introduces a single lessee accounting model and requires a lessee to recognize a Right of Use Asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

On adoption of IFRS 16, CES has elected to record right of use (“ROU”) assets based on the corresponding lease liability. Lease liabilities were measured at the present value of the remaining lease payments outstanding from commitments disclosed as at December 31, 2018, excluding short-term leases, low-value leases, and variable lease payments, and discounted using the Company’s incremental borrowing rate as of January 1, 2019 which ranges from 4.4% to 6.5%.

On transition to IFRS 16, the Company elected to use the following practical expedients, as permitted under the standard:

- Grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases under IAS 17;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of low-value (less than US\$5);
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Account for lease components and non-lease components as a single lease component.

The lease payments associated with these short-term or low-value leases are recognized as an expense on a straight-line basis over the lease term.

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

A reconciliation of the Company's operating lease commitments at December 31, 2018, to the Company's lease obligations as at the date of transition of January 1, 2019, is summarized below:

Operating lease commitment at December 31, 2018 as disclosed in the consolidated financial statements	42,750
Recognition exemption for short-term & low-value leases	(7,346)
Variable payments associated with long-term leases	(12,862)
Discounted using the incremental borrowing rate at January 1, 2019	(2,630)
<b>Lease obligation - January 1, 2019</b>	<b>19,912</b>

The following table summarizes the impacts of adopting IFRS 16 on the consolidated financial statements:

	Balance December 31, 2018	Adoption of IFRS 16	Reclassification	Restated Balance January 1, 2019
Property and equipment	360,963	—	(40,359)	320,604
Right-of-use assets	—	—	40,359	40,359
Buildings & leasehold improvements	—	16,496	—	16,496
Rail cars	—	3,221	—	3,221
Field equipment	—	195	—	195
Current portion of lease obligations	(14,857)	(5,092)	—	(19,949)
Lease obligations	(18,239)	(14,820)	—	(33,059)

On adoption of IFRS 16, the Company has elected to reclassify amounts relating to leased assets that were historically considered finance leases under IAS 17 from property and equipment to right-of-use assets on the statement of financial position. The reclassification is comprised of the following balances:

	As at January 1, 2019		
	Cost	Accumulated Depreciation	Carrying Value
Vehicles	49,667	15,963	33,704
Trucks and trailers	5,288	2,660	2,628
Tanks	2,810	835	1,975
Buildings & leasehold improvements	1,826	53	1,773
Processing equipment	285	10	275
Field equipment	608	604	4
	60,484	20,125	40,359

### b) Update to Significant Accounting Policies

The Company recognizes a Right of Use Asset and a lease liability at the lease commencement date. The Right of Use Asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The Right of Use Asset is subsequently depreciated to the earlier of the end of the useful life of the Right of Use Asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The Right of Use Asset may be adjusted for certain remeasurements of the lease liability and impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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future lease payments arising from a change in an index or rate, a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the Company's assessment of whether it will exercise a purchase, extension or termination option.

Leases that have a term of less than 12 months or leases with an underlying asset of low-value are recognized as an expense in the consolidated statement of net income and comprehensive (loss) income.

### *Critical Judgments in Determining the Lease Term*

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

## 4. Business Combinations

### *2018 Acquisition*

#### *Caradan Chemicals Inc.*

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

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

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

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

### *Allocation of purchase price*

Property and equipment	1,051
Intangible assets	2,000
Goodwill	2,928
<b>Total assets</b>	<b>5,979</b>
Current liabilities	(1,603)
<b>Total liabilities</b>	<b>(1,603)</b>
<b>Net assets acquired</b>	<b>4,376</b>

The amount of revenue and profit or loss attributable to the acquisition from the date of acquisition to December 31, 2018, is not readily determinable. The goodwill recognized on the Caradan Acquisition is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company.



## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

### 5. Property and Equipment

Property and equipment are comprised of the following balances:

	As at June 30, 2019			As at December 31, 2018		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Buildings & leasehold improvements	150,410	38,371	112,039	156,168	34,888	121,280
Processing equipment	68,823	18,240	50,583	66,776	16,654	50,122
Tanks	54,495	16,232	38,263	56,117	16,000	40,117
Trucks and trailers	91,447	53,956	37,491	94,745	53,810	40,935
Field equipment	62,653	34,231	28,422	64,362	33,509	30,853
Land	17,212	—	17,212	17,638	—	17,638
Aircraft	23,361	9,808	13,553	23,488	8,776	14,712
Vehicles	13,585	6,200	7,385	63,362	22,014	41,348
Office & computer equipment	16,392	12,525	3,867	15,858	11,900	3,958
	<b>498,378</b>	<b>189,563</b>	<b>308,815</b>	<b>558,514</b>	<b>197,551</b>	<b>360,963</b>

As outlined in Note 3, on adoption of IFRS 16 on January 1, 2019, all assets previously categorized as finance leases under IAS 17 and included in property and equipment were reclassified to right-of-use assets. Prior period comparatives were not restated.

### 6. Right-of-Use Assets

Right-of-use assets are comprised of the following balances:

	As at June 30, 2019		
	Cost	Accumulated Depreciation	Carrying Value
Vehicles	46,564	15,723	30,841
Buildings & leasehold improvements	18,414	2,364	16,050
Rail cars	3,885	522	3,363
Trucks and trailers	5,278	2,918	2,360
Tanks	2,806	926	1,880
Processing equipment	285	20	265
Field equipment	784	618	166
	<b>78,016</b>	<b>23,091</b>	<b>54,925</b>

For the three and six months ended June 30, 2019, the Company recorded \$4,165 and \$8,380, respectively (2018 - \$2,239 and \$4,288, respectively) in depreciation expense related to its right-of-use assets.

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

### 7. Long-Term Debt

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

	As at	
	June 30, 2019	December 31, 2018
Senior Facility	95,158	162,036
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	300,000	300,000
	395,158	462,036
Less unamortized debt issue costs	(5,784)	(6,445)
Long-term debt	389,374	455,591

#### Senior Facility

The Company has a syndicated senior facility (the "Senior Facility") which is comprised of a Canadian facility of \$180,000 and a US facility of US\$40,000. The Senior Facility matures on September 28, 2020, and may be extended by one year upon agreement of the lenders and the Company. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.45% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

As at June 30, 2019, the maximum available draw on the Senior Facility was \$180,000 on the Canadian facility and US\$40,000 on the US facility. As at June 30, 2019, the Company had a net draw of \$94,776 on the Senior Facility (December 31, 2018 - \$161,501), with capitalized transaction costs of \$382 (December 31, 2018 - \$535). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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

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

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

- Net Senior Debt is defined as Total Net Funded Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

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Notes to the Condensed Consolidated Financial Statements (unaudited)

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

The Company's debt covenants are agnostic to any changes under IFRS. The adoption of IFRS 16 did not have an impact on the Company's Credit Facility covenants. The covenant calculations as at June 30, 2019 and December 31, 2018, are as follows:

	As at	
	June 30, 2019	December 31, 2018
Net Senior Funded Debt	127,190	197,221
EBITDA for the four quarters ended	169,307	166,012
Ratio	0.751	1.188
Maximum	2.500	2.500
EBITDA for the four quarters ended	169,307	166,012
Interest Expense for the four quarters ended	27,440	26,033
Ratio	6.170	6.377
Minimum	2.500	2.500

As at June 30, 2019, the Company was in compliance with the terms and covenants of its lending agreements.

For the three and six months ended June 30, 2019, the Company recorded \$7,314 and \$14,831, respectively (2018 - \$6,508 and \$12,843, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments on the Company's long-term debt at June 30, 2019, are as follows:

2019 - 6 months	—
2020	95,158
2021	—
2022	—
2023	—
	95,158

### 8. Leases

The Company incurs lease payments under a number of lease arrangements for which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company's leases are for terms ranging from July 2019 through February 2030 with interest rates of up to 7.37% and a weighted average interest rate of 5.37%.

As at January 1, 2019 (Note 3)	53,008
Additions	7,078
Interest expense	1,387
Lease payments	(12,521)
Effects of movements in exchange rates	(1,197)
As at June 30, 2019	47,755
Current portion of lease obligation	20,426
Long-term portion of lease obligation	27,329

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Notes to the Condensed Consolidated Financial Statements (unaudited)

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

Future minimum lease payments outstanding under the Company's lease obligations at June 30, 2019 are as follows:

Less than 1 year	21,975
1-5 years	29,867
5+ years	2,284
Total lease payments	54,126
Amount representing implicit interest	(6,371)
Lease obligations	47,755

### 9. Share Capital

#### a) Authorized

The Company is authorized to issue an unlimited number of common shares.

#### b) Issued and outstanding

A summary of the changes to common share capital is presented below:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Number of Shares	Amount	Number of Shares	Amount
<b>Common Shares</b>				
Balance, beginning of period	265,886,609	651,116	267,935,090	655,028
Issued pursuant to stock-based compensation	2,914,382	—	2,739,909	1,362
Contributed surplus related to stock-based compensation	—	17,887	—	14,200
Issued pursuant to stock settled director fee	10,871	32	11,510	58
Common shares repurchased and canceled through NCIB	(3,073,103)	(7,650)	(4,799,900)	(19,532)
Balance, end of period	265,738,759	661,385	265,886,609	651,116

#### Normal Course Issuer Bid ("NCIB")

On July 17, 2018, the Company began a normal course issuer bid to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. Since inception of the NCIB and up to June 30, 2019, the Company has repurchased 7,873,003 common shares at an average price of \$3.45 per share for a total amount \$27,182. Subsequent to June 30, 2019, the Company purchased 185,000 additional shares at a weighted average price per share of \$1.94 for a total of \$359 and renewed the existing NCIB to repurchase for cancellation up to 18,649,192 common shares. The renewed NCIB will terminate on July 16, 2020 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election.

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

### c) Net income per share

In calculating the basic and diluted net income per share for the three and six months ended June 30, 2019 and 2018, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	<b>8,361</b>	13,159	<b>10,559</b>	26,409
Weighted average number of shares outstanding:				
Basic shares outstanding	<b>266,719,773</b>	268,800,776	<b>266,432,313</b>	268,491,257
Effect of dilutive shares	<b>6,365,989</b>	7,807,527	<b>6,144,499</b>	7,101,637
Diluted shares outstanding	<b>273,085,762</b>	276,608,303	<b>272,576,812</b>	275,592,894
Net income per share - basic	<b>\$0.03</b>	\$0.05	<b>\$0.04</b>	\$0.10
Net income per share - diluted	<b>\$0.03</b>	\$0.05	<b>\$0.04</b>	\$0.10

Excluded from the calculation of dilutive shares for the three and six months ended June 30, 2019, are 11,340,533 and 11,708,733 of Share Rights (2018 – 10,957,868 and 11,058,840 of Share Rights) that are considered anti-dilutive.

## 10. Stock-Based Compensation

As at June 30, 2019, a total of 26,573,876 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 8,283,208 common shares remained available for grant. For the three and six months ended June 30, 2019, stock compensation expense of \$4,765 and \$10,465, respectively (2018 – \$8,104 and \$14,203, respectively) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

### a) Share Rights Incentive Plan ("SRIP")

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

A summary of changes under the SRIP is presented below:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Share Rights	Average Exercise Price	Share Rights	Average Exercise Price
Balance, beginning of period	<b>12,333,645</b>	<b>\$6.29</b>	14,875,400	\$6.38
Granted during the period	—	—	210,000	6.07
Exercised during the period	—	—	(317,955)	4.28
Expired during the period	<b>(837,000)</b>	<b>10.20</b>	(1,258,000)	7.16
Forfeited during the period	<b>(671,600)</b>	<b>6.29</b>	(1,175,800)	6.93
Balance, end of period	<b>10,825,045</b>	<b>\$5.99</b>	12,333,645	\$6.29
Exercisable Share Rights, end of period	<b>8,552,045</b>	<b>\$6.15</b>	8,913,245	\$6.64

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

The following table summarizes information about the outstanding grants under the Company's SRIP as at June 30, 2019:

Range of exercise prices	Share Rights Outstanding			Share Rights Exercisable	
	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
\$3.10 - \$4.83	3,047,045	\$4.18	2.12	2,188,045	\$4.06
\$4.84 - \$6.17	2,653,000	5.88	3.00	1,465,000	5.93
\$6.18 - \$6.77	382,000	6.47	2.17	297,000	6.50
\$6.78 - \$7.07	3,821,000	6.92	0.89	3,821,000	6.92
\$7.08 - \$10.98	922,000	8.28	1.45	781,000	8.45
	10,825,045	\$5.99	1.84	8,552,045	\$6.15

### b) Restricted Share Unit ("RSU") Plan

CES' RSU Plan provides incentives to eligible employees, officers, and directors of the Company through the issuance of RSUs. The RSUs generally vest from one year, and up to three years, on the anniversary from the date of grant, subject to other such vesting schedules or conditions as determined by the Board of Directors. Throughout the vesting period, holders of Restricted Shares will be entitled to the dividend equivalents in the form of additional Restricted Shares on each dividend payment date, to be held in the RSU account until such time as the awards have vested.

A summary of changes under the RSU plan is presented below:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Restricted Share Units	Average Price	Restricted Share Units	Average Price
Balance, beginning of period	6,267,482	\$6.03	4,706,493	\$5.98
Granted during the period	4,498,877	2.46	4,236,453	5.89
Reinvested during the period	64,534	5.49	67,850	6.04
Vested during the period	(2,914,382)	6.14	(2,421,955)	5.68
Forfeited during the period	(450,899)	5.22	(321,359)	6.29
Balance, end of period	7,465,612	\$3.88	6,267,482	\$6.03

The weighted average fair value of the RSUs granted during the six months ended June 30, 2019, was \$2.46 per RSU (2018 - \$6.10). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the six months ended June 30, 2019, was reduced by an estimated weighted average forfeiture rate of 5.61% per year at the date of grant.

## 11. Dividends

The Company declared dividends to holders of common shares for the six months ended June 30, 2019, as follows:

	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	\$0.005	1,330
February	Feb 28	Mar 15	\$0.005	1,330
March	Mar 29	Apr 15	\$0.005	1,335
April	Apr 30	May 15	\$0.005	1,332
May	May 31	Jun 14	\$0.005	1,332
June	Jun 28	Jul 15	\$0.005	1,329
Total dividends declared during the period			\$0.030	7,988

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

Subsequent to June 30, 2019, the Company declared dividends to holders of common shares in the amount of \$0.005 per common share payable on August 15, 2019 for shareholders of record on July 31, 2019.

### 12. Commitments

The Company has commitments related to variable payments associated with long-term leases, short-term leases, low-value leases, and capital commitments with payments due as follows:

Less than 1 year	2,690
1-5 years	124
5+ years	—
<b>Total</b>	<b>2,814</b>

*Payments denominated in foreign currencies have been translated using the June 30, 2019 exchange rate*

The Company is involved in litigation and disputes arising in the normal course of operations. Management is of the opinion that any potential litigation will not have a material adverse impact on the Company's financial position or results of operations and, therefore, the commitment table does not include any provisions for outstanding litigation and potential claims.

### 13. Supplemental Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Increase) decrease in current assets				
Accounts receivable (includes income taxes receivable)	<b>39,709</b>	32,974	<b>49,949</b>	35,495
Inventory	<b>7,212</b>	(25,307)	<b>21,734</b>	(42,246)
Prepaid expenses and deposits	<b>(558)</b>	(1,405)	<b>(1,635)</b>	(2,860)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities (includes income taxes payable)	<b>(7,978)</b>	10,843	<b>(13,722)</b>	12,213
Effects of movement in exchange rate	<b>(6,246)</b>	4,873	<b>(11,871)</b>	11,045
	<b>32,170</b>	21,978	<b>44,455</b>	13,647
Relating to:				
Operating activities	<b>32,614</b>	18,106	<b>48,155</b>	7,597
Investing activities	<b>(444)</b>	3,872	<b>(3,700)</b>	6,050

*The changes in non-cash working capital exclude the impact of any working capital acquired through business combinations in the respective periods*

For the three and six months ended June 30, 2019 and 2018, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Condensed Consolidated Statements of Cash Flows.

## CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

### 14. Geographical Information

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

	Revenue		Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
United States	236,776	201,525	461,669	380,987
Canada	76,161	82,792	184,256	203,648
	312,937	284,317	645,925	584,635

	Long-Term Assets <sup>(1)</sup>	
	June 30, 2019	December 31, 2018
United States	498,788	512,052
Canada	228,105	230,414
	726,893	742,466

<sup>(1)</sup> Includes: Property and equipment, right-of-use assets, intangible assets, other assets and goodwill

### 15. Related Parties

During the six months ended June 30, 2019, CES paid rent of \$29 (2018 - \$59) to an executive officer of the Company for use of a temporary rental property. During the six months ended June 30, 2018, CES bought property and equipment with an approximate fair value \$320 from an executive officer of the Company, and from companies controlled by the respective executive officer, for a purchase price of \$320. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.



# CES Energy Solutions Corp.

## Information

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### STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange  
Trading Symbol: CEU

OTC

Trading Symbol: CESDF

### BOARD OF DIRECTORS

Kyle D. Kitagawa<sup>1,2</sup>  
Chairman

John M. Hooks<sup>2</sup>

Rodney L. Carpenter<sup>3</sup>

Spencer D. Armour III<sup>1</sup>

Philip J. Scherman<sup>1</sup>

Stella Cosby<sup>2,3</sup>

Thomas J. Simons

<sup>1</sup>Member of the Audit Committee

<sup>2</sup>Member of the Corporate Governance, Nominating and Compensation Committee

<sup>3</sup>Member of the Health, Safety and Environment Committee

### OFFICERS

Thomas J. Simons  
President & Chief Executive Officer

Anthony M. Aulicino  
Chief Financial Officer

Kenneth E. Zinger  
Chief Operating Officer & President, Canadian Operations

Richard Baxter  
President, US Drilling Fluids

Vern Disney  
President, US Production Chemicals

James M. Pasioka  
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, 332 – 6<sup>th</sup> Avenue SW  
Calgary, AB T2P 0B2  
Phone: 403-269-2800  
Toll Free: 1-888-785-6695  
Fax: 403-266-5708

### 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

### CANADIAN BUSINESS UNITS

Canadian Energy Services and PureChem Services  
Suite 1400, 332 – 6<sup>th</sup> Avenue SW  
Calgary, AB T2P 0B2  
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

[www.cesenergysolutions.com](http://www.cesenergysolutions.com)