CES Energy Solutions

Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2019 and 2018

CES Energy Solutions Corp.

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

	As at	
	September 30, 2019	December 31, 2018
ASSETS		
Current assets		
Accounts receivable	**263,337**	311,222
Financial derivative asset	**—**	270
Income taxes receivable	**820**	1,561
Inventory	**225,801**	238,503
Prepaid expenses and deposits	**25,561**	13,435
	515,519	564,991
Property and equipment (note 5)	**302,870**	360,963
Right-of-use assets (note 6)	**55,288**	—
Intangible assets	**65,022**	77,143
Deferred income tax asset	**809**	14,352
Other assets	**5,067**	4,860
Goodwill	**293,068**	299,500
	1,237,643	1,321,809
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**127,977**	125,149
Financial derivative liability	**31**	—
Dividends payable (note 11)	**1,328**	1,329
Income taxes payable	**1,175**	2,892
Current portion of deferred acquisition consideration	**150**	370
Current portion of lease obligations (note 8)	**21,683**	14,857
	152,344	144,597
Deferred acquisition consideration	**—**	150
Long-term debt (note 7)	**370,161**	455,591
Lease obligations (note 8)	**25,960**	18,239
Deferred income tax liability	**2,687**	5,662
	551,152	624,239
Commitments (note 12)		
Shareholders' equity		
Common shares (note 9)	**662,903**	651,116
Contributed surplus	**40,521**	47,204
Deficit	**(173,769)**	(179,993)
Accumulated other comprehensive income	**156,836**	179,243
	686,491	697,570
	1,237,643	1,321,809

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 Income (Loss) (unaudited)
(stated in thousands of Canadian dollars, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Revenue	**315,771**	338,511	**961,696**	923,146
Cost of sales	**247,070**	262,562	**754,452**	708,585
Gross margin	**68,701**	75,949	**207,244**	214,561
General and administrative expenses	**48,805**	56,397	**155,028**	159,763
Operating profit	**19,896**	19,552	**52,216**	54,798
Finance costs	**6,415**	6,912	**21,367**	18,198
Other (income) loss	**(5)**	(26)	**142**	102
Income before taxes	**13,486**	12,666	**30,707**	36,498
Current income tax expense	**618**	770	**2,258**	2,720
Deferred income tax expense	**5,231**	6,037	**10,253**	1,510
Net income	**7,637**	5,859	**18,196**	32,268
Other comprehensive income (items that may be subsequently reclassified to profit and loss):				
Unrealized foreign exchange gain (loss) on translation of foreign operations	**8,843**	(12,051)	**(22,649)**	21,329
Change in fair value of other assets, net of tax	**6**	62	**242**	191
Comprehensive income (loss)	**16,486**	(6,130)	**(4,211)**	53,788
Net income per share (note 9)				
Basic	**0.03**	0.02	**0.07**	0.12
Diluted	**0.03**	0.02	**0.07**	0.12

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)

	Nine Months Ended September 30,	
	2019	2018
COMMON SHARES		
Balance, beginning of period	**651,116**	655,028
Issued pursuant to stock-based compensation (note 10)	**20,940**	14,539
Issued pursuant to stock settled director fee	**49**	39
Common shares repurchased and canceled through NCIB (note 9)	**(9,202)**	(12,350)
Balance, end of period	**662,903**	657,256
CONTRIBUTED SURPLUS		
Balance, beginning of period	**47,204**	34,142
Reclassified pursuant to stock-based compensation (note 9)	**(20,940)**	(13,332)
Stock-based compensation expense (note 10)	**14,257**	21,958
Balance, end of period	**40,521**	42,768
DEFICIT		
Balance, beginning of period	**(179,993)**	(215,021)
Net income	**18,196**	32,268
Dividends declared (note 11)	**(11,972)**	(8,713)
Balance, end of period	**(173,769)**	(191,466)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	**179,243**	119,049
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(22,649)**	21,329
Change in fair value of other assets, net of tax	**242**	191
Balance, end of period	**156,836**	140,569
	686,491	649,127

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 September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income	**7,637**	5,859	**18,196**	32,268
Adjustments for:				
Depreciation and amortization	**18,545**	15,793	**58,038**	46,310
Stock-based compensation (note 10)	**3,792**	7,755	**14,257**	21,958
Other (gain) loss and non-cash (gain) loss	**(39)**	749	**2,081**	343
Deferred income tax expense	**5,231**	6,037	**10,253**	1,510
Gain on disposal of assets	**(1,499)**	(725)	**(2,050)**	(1,376)
Change in non-cash working capital (note 13)	**(3,081)**	(47,215)	**45,074**	(39,618)
	30,586	(11,747)	**145,849**	61,395
FINANCING ACTIVITIES:				
Repayment of lease obligations	**(5,193)**	(2,974)	**(16,327)**	(7,651)
(Decrease) increase in Senior Facility	**(19,607)**	56,384	**(86,257)**	39,526
Shareholder dividends	**(3,985)**	(4,020)	**(11,973)**	(8,046)
Issuance of shares, net of issuance costs	—	155	—	1,207
Common shares repurchased and cancelled through NCIB (note 9)	**(1,552)**	(12,350)	**(9,202)**	(12,350)
	(30,337)	37,195	**(123,759)**	12,686
INVESTING ACTIVITIES:				
Investment in property and equipment	**(9,232)**	(25,742)	**(33,877)**	(64,365)
Investment in intangible assets	**(576)**	(1,701)	**(1,787)**	(7,479)
Investment in other assets	**54**	89	**(349)**	2,468
Deferred acquisition consideration	—	—	**(337)**	(4,550)
Business combinations	—	—	—	(5,315)
Proceeds on disposal of assets	**9,505**	1,906	**14,260**	5,160
	(249)	(25,448)	**(22,090)**	(74,081)
CHANGE IN CASH	—	—	—	—
Cash, beginning of period	—	—	—	—
Cash, end of period	—	—	—	—
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**1,803**	584	**16,124**	12,903
Income taxes paid	**607**	362	**3,217**	1,205

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

1. The Company

CES Energy Solutions Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 332 – 6th Avenue SW, Calgary, Alberta, Canada T2P 0B2. The condensed consolidated financial statements of the Company as at and for the three and nine months ended September 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 November 14, 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.

(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)
Lease obligation - January 1, 2019	**19,912**

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 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.

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

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
Total assets	**5,979**
Current liabilities	(1,603)
Total liabilities	**(1,603)**
Net assets acquired	**4,376**

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

(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 September 30, 2019			As at December 31, 2018		
	Cost	**Accumulated Depreciation**	**Carrying Value**	Cost	Accumulated Depreciation	Carrying Value
Buildings & leasehold improvements	**152,651**	**40,909**	**111,742**	156,168	34,888	121,280
Processing equipment	**71,058**	**19,264**	**51,794**	66,776	16,654	50,122
Tanks	**56,157**	**17,219**	**38,938**	56,117	16,000	40,117
Trucks and trailers	**93,915**	**56,869**	**37,046**	94,745	53,810	40,935
Field equipment	**65,038**	**36,336**	**28,702**	64,362	33,509	30,853
Land	**17,382**	**—**	**17,382**	17,638	—	17,638
Vehicles	**14,112**	**6,412**	**7,700**	63,362	22,014	41,348
Aircraft	**7,131**	**1,223**	**5,908**	23,488	8,776	14,712
Office & computer equipment	**16,434**	**12,776**	**3,658**	15,858	11,900	3,958
	493,878	**191,008**	**302,870**	558,514	197,551	360,963

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 September 30, 2019		
	Cost	**Accumulated Depreciation**	**Carrying Value**
Vehicles	**48,118**	**17,378**	**30,740**
Buildings & leasehold improvements	**19,556**	**3,621**	**15,935**
Rail cars	**4,738**	**837**	**3,901**
Trucks and trailers	**5,156**	**2,934**	**2,222**
Tanks	**2,807**	**974**	**1,833**
Field equipment	**1,038**	**642**	**396**
Processing equipment	**286**	**25**	**261**
	81,699	**26,411**	**55,288**

For the three and nine months ended September 30, 2019, the Company recorded $4,248 and $12,628, respectively (2018 - $2,352 and $6,640, respectively) in depreciation expense related to its right-of-use assets.

(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	
	September 30, 2019	December 31, 2018
Senior Facility	**75,959**	162,036
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**300,000**	300,000
	375,959	462,036
Less unamortized debt issue costs	**(5,798)**	(6,445)
Long-term debt	**370,161**	455,591

Senior Facility

On August 22, 2019, the Company completed an amendment and two year extension of its existing syndicated senior facility (the "Senior Facility"). All of the amendments took effect August 22, 2019 and will remain in effect until maturity on September 28, 2022, subject to certain terms and conditions, and the Senior Facility may be extended by one year upon agreement of the lenders and the Company. The principal amendments to the Senior Facility include an increase to the US facility amount from US$40,000 to US$50,000, a reduction in the Canadian facility from $180,000 to $170,000, the ability of the Company to use proceeds under the Senior Facility to repurchase or redeem a portion of the Corporation's outstanding senior unsecured notes subject to minimum liquidity requirements, and improved pricing on amounts drawn. Other terms and conditions from the amendment remain consistent with those of the previous senior facility.

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 0.25% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.25% to 2.00%. The Senior Facility has a standby fee ranging from 0.25% 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 September 30, 2019, the maximum available draw on the Senior Facility was $170,000 on the Canadian facility and US $50,000 on the US facility. As at September 30, 2019, the Company had a net draw of $75,309 on the Senior Facility (December 31, 2018 - $161,501), with capitalized transaction costs of $650 (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 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 Debt is defined as all obligations, liabilities, and indebtedness excluding future income tax liabilities and deferred tax credits, office leases, other leases characterized as an operating lease, and accrued interest not yet due and payable. Total Net 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.

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

The adoption of IFRS 16 did not have an impact on the Company's Senior Facility covenants. The covenant calculations as at September 30, 2019 and December 31, 2018, are as follows:

	As at	
	September 30, 2019	December 31, 2018
Net Senior Debt	**107,368**	197,221
EBITDA for the four quarters ended	**162,786**	166,012
Ratio	**0.660**	1.188
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**162,786**	166,012
Interest Expense for the four quarters ended	**27,256**	26,033
Ratio	**5.972**	6.377
Minimum	**2.500**	2.500

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

For the three and nine months ended September 30, 2019, the Company recorded $6,878 and $21,709, respectively (2018 - $6,854 and $19,697, 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 September 30, 2019, are as follows:

2019 - 3 months	—
2020	—
2021	—
2022	75,959
2023	—
2024	300,000
	375,959

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 November 2019 through February 2030 with interest rates of up to 7.37% and a weighted average interest rate of 5.31%.

As at January 1, 2019 (Note 3)	**53,008**
Additions	**11,809**
Interest expense	**2,038**
Lease payments	**(18,365)**
Effects of movements in exchange rates	**(847)**
As at September 30, 2019	**47,643**
Current portion of lease obligation	**21,683**
Long-term portion of lease obligation	**25,960**

(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 September 30, 2019 are as follows:

Less than 1 year	**22,943**
1-5 years	**26,526**
5+ years	**2,197**
Total lease payments	**51,666**
Amount representing implicit interest	**(4,023)**
Lease obligations	**47,643**

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:

	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
Common Shares	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of period	**265,886,609**	**651,116**	267,935,090	655,028
Issued pursuant to stock-based compensation	**3,580,557**	**—**	2,739,909	1,362
Contributed surplus related to stock-based compensation	**—**	**20,940**	—	14,200
Issued pursuant to stock settled director fee	**17,811**	**49**	11,510	58
Common shares repurchased and canceled through NCIB	**(3,837,103)**	**(9,202)**	(4,799,900)	(19,532)
Balance, end of period	**265,647,874**	**662,903**	265,886,609	651,116

Normal Course Issuer Bid ("NCIB")

On July 11, 2019, the Company announced the renewal of its previous NCIB which ended on July 16, 2019. Under the renewed NCIB, effective July 17, 2019, the Company may repurchase for cancellation up to 18,649,192 common shares, being 7.5% of the public float of common shares at the time of renewal. 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. Since inception of the Company's NCIB programs and up to September 30, 2019, the Company has repurchased 8,637,003 common shares at an average price of $3.33 per share for a total amount $28,735. Subsequent to September 30, 2019, the Company purchased 740,000 additional shares at a weighted average price per share of $1.95 for a total of $1,441.

(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 nine months ended September 30, 2019 and 2018, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Net income	**7,637**	5,859	**18,196**	32,268
Weighted average number of shares outstanding:				
Basic shares outstanding	**265,762,689**	268,119,617	**266,206,652**	268,366,016
Effect of dilutive shares	**7,208,789**	7,382,403	**6,667,865**	7,259,372
Diluted shares outstanding	**272,971,478**	275,502,020	**272,874,517**	275,625,388
Net income per share - basic	**$0.03**	$0.02	**$0.07**	$0.12
Net income per share - diluted	**$0.03**	$0.02	**$0.07**	$0.12

Excluded from the calculation of dilutive shares for the three and nine months ended September 30, 2019, are 10,334,845 and 11,245,738 of Share Rights (2018 – 10,832,113 and 10,975,020 of Share Rights) that are considered anti-dilutive.

10. Stock-Based Compensation

As at September 30, 2019, a total of 26,564,787 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 9,830,333 common shares remained available for grant. For the three and nine months ended September 30, 2019, stock compensation expense of $3,792 and $14,257, respectively (2018 – $7,755 and $21,958, 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:

	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of period	**12,333,645**	**$6.29**	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	**(1,143,000)**	**10.16**	(1,258,000)	7.16
Forfeited during the period	**(1,161,800)**	**5.87**	(1,175,800)	6.93
Balance, end of period	**10,028,845**	**$5.90**	12,333,645	$6.29
Exercisable Share Rights, end of period	**8,963,245**	**$5.88**	8,913,245	$6.64

(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 September 30, 2019:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$3.10 - $4.83	2,822,045	$4.21	1.88	2,822,045	$4.21
$4.84 - $6.17	2,543,800	5.87	2.74	1,704,200	5.87
$6.18 - $6.77	361,000	6.46	1.98	276,000	6.49
$6.78 - $7.07	3,686,000	6.92	0.64	3,686,000	6.92
$7.08 - $9.53	616,000	7.38	1.86	475,000	7.41
	10,028,845	$5.90	1.64	8,963,245	$5.88

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:

	Nine Months Ended September 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	**4,513,877**	**2.52**	4,236,453	5.89
Reinvested during the period	**98,222**	**4.96**	67,850	6.04
Vested during the period	**(3,580,557)**	**5.85**	(2,421,955)	5.68
Forfeited during the period	**(593,415)**	**5.03**	(321,359)	6.29
Balance, end of period	**6,705,609**	**$3.84**	6,267,482	$6.03

The weighted average fair value of the RSUs granted during the nine months ended September 30, 2019, was $2.52 per RSU (2018 - $6.04). 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 nine months ended September 30, 2019, was reduced by an estimated weighted average forfeiture rate of 2.95% per year at the date of grant.

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

11. Dividends

The Company declared dividends to holders of common shares for the nine months ended September 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**
July	Jul 31	Aug 15	$0.005	**1,328**
August	Aug 30	Sept 13	$0.005	**1,328**
September	Sep 30	Oct 15	$0.005	**1,328**
Total dividends declared during the period			$0.045	**11,972**

Subsequent to September 30, 2019, the Company declared dividends to holders of common shares in the amount of $0.005 per common share payable on November 15, 2019 for shareholders of record on October 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	1,759
1-5 years	94
5+ years	—
Total	**1,853**

Payments denominated in foreign currencies have been translated using the September 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.

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

13. Supplemental Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
(Increase) decrease in current assets				
Accounts receivable (includes income taxes receivable)	**(1,323)**	(57,796)	**48,626**	(22,301)
Inventory	**(9,032)**	(7,105)	**12,702**	(49,351)
Prepaid expenses and deposits	**(10,491)**	(2,971)	**(12,126)**	(5,831)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities (includes income taxes payable)	**14,833**	22,399	**1,111**	34,612
Effects of movement in exchange rate	**3,188**	(5,105)	**(8,683)**	5,940
	(2,825)	(50,578)	**41,630**	(36,931)
Relating to:				
Operating activities	**(3,081)**	(47,215)	**45,074**	(39,618)
Investing activities	**256**	(3,363)	**(3,444)**	2,687

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 nine months ended September 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.

14. Geographical Information

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

	Revenue		Revenue	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
United States	**227,282**	227,100	**688,950**	608,087
Canada	**88,489**	111,411	**272,746**	315,059
	315,771	338,511	**961,696**	923,146

	Long-Term Assets [1]	
	September 30, 2019	December 31, 2018
United States	**505,311**	512,052
Canada	**216,004**	230,414
	721,315	742,466

[1] *Includes: Property and equipment, right-of-use assets, intangible assets, other assets and goodwill*

15. Related Parties

During the three and nine months ended September 30, 2019, CES paid rent of $13 and $42, respectively (2018 - $nil and $59, respectively) to an executive officer of the Company for use of a temporary rental property. During the nine months ended September 30, 2018, CES bought property and equipment with an approximate fair value $320 from a former executive officer of the Company, and from companies controlled by the respective former 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.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

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Thomas J. Simons

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

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Chief Financial Officer

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

Richard Baxter
President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

James M. Pasieka
Corporate Secretary

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