

MANAGEMENT'S DISCUSSION AND ANALYSIS

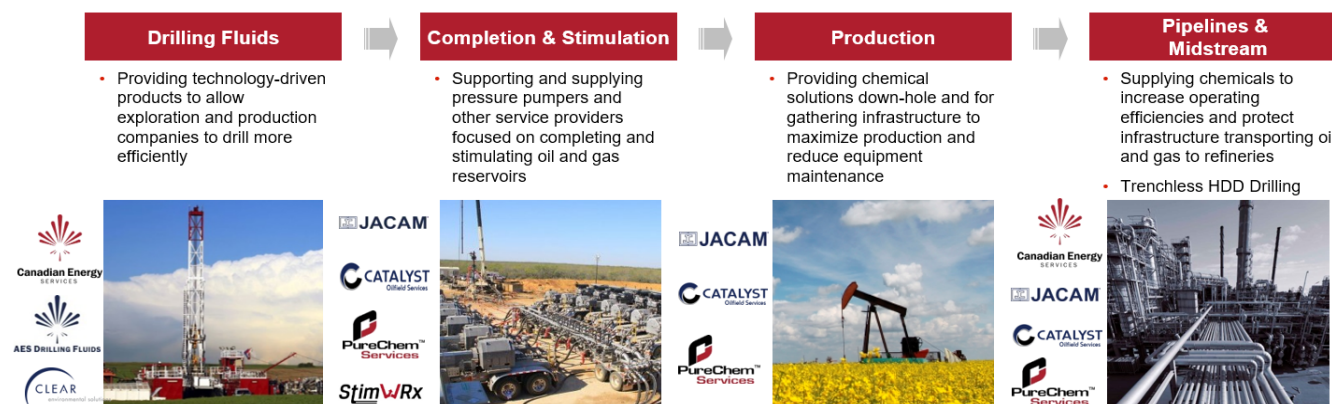
The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the three and nine months ended September 30, 2019, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2018 and 2017, and CES' 2018 Annual Information Form. Readers should also refer to the "Forward-looking Information & Statements" legal advisory and the section regarding "Non-GAAP Measures" and "Operational Definitions" at the end of this MD&A. This MD&A is dated November 14, 2019, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

USE OF NON-GAAP MEASURES

This MD&A contains certain financial measures that are not recognized by Canadian generally accepted accounting principles ("GAAP"), and which are used by management to evaluate the performance of CES and its business segments. Since certain non-GAAP financial measures do not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. Please refer to the section titled NON-GAAP MEASURES on page 18 for further information on the definition, calculation and reconciliation of the non-GAAP financial measures contained in this MD&A.

BUSINESS OF CES

CES is a leading provider of technically advanced consumable chemical solutions throughout the life-cycle of the oilfield. This includes total solutions at the drill-bit, at the point of completion and stimulation, at the wellhead and pump-jack, and finally through to the pipeline and midstream market. At the drill-bit, CES' designed drilling fluids encompass the functions of cleaning the hole, stabilizing the rock drilled, controlling subsurface pressures, enhancing drilling rates, and protecting potential production zones while conserving the environment in the surrounding surface and subsurface area. At the point of completion and stimulation, CES' designed chemicals form a critical component of fracturing solutions or other forms of remedial well stimulation techniques. The shift to horizontal drilling and multi-stage fracturing with long horizontal well completions has been responsible for significant growth in the drilling fluids and completion and stimulation chemicals markets. At the wellhead and pump-jack, CES' designed production and specialty chemicals provide down-hole solutions for production and gathering infrastructure to maximize production and reduce costs of equipment maintenance. Key solutions include corrosion inhibitors, demulsifiers, H₂S 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 H₂S.



Oilfield Knowledge + Vertically Integrated Technology + Manufacturing = Competitive Advantage

Vertically Integrated Manufacturing



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

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

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

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

CES continues to see improvement in its financial position and the Company's Board of Directors and management believe that the market price of CES' common shares does not reflect adequate underlying value. 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 \$28.7 million, representing approximately 3.2% of outstanding common shares as at the July 17, 2018 inception date. During Q3 2019, CES repurchased 764,000 common shares at an average price of \$2.03 per share for a total amount of \$1.6 million. 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 \$1.4 million.

During Q3 2019, CES declared dividends totaling \$0.015 per share as compared to \$0.015 per share for Q3 2018, resulting in a Dividend Payout Ratio averaging 12% in Q3 2019 as compared to 12% in Q3 2018. Further discussion on the Company's dividend is included in the Liquidity and Capital Resources section of this document.

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

FINANCIAL HIGHLIGHTS

(\$000s, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 ⁽³⁾	%Change	2019	2018 ⁽³⁾	%Change
Revenue						
United States	227,282	227,100	0.1 %	688,950	608,087	13 %
Canada	88,489	111,411	(21)%	272,746	315,059	(13)%
Total Revenue	315,771	338,511	(7)%	961,696	923,146	4 %
Net income	7,637	5,859	30 %	18,196	32,268	(44)%
per share – basic	0.03	0.02	50 %	0.07	0.12	(42)%
per share - diluted	0.03	0.02	50 %	0.07	0.12	(42)%
Adjusted EBITDAC ⁽²⁾	42,233	45,550	(7)%	127,474	125,515	2 %
Adjusted EBITDAC ⁽²⁾ % of Revenue	13.4 %	13.5%	(0.1)%	13.3 %	13.6%	(0.3)%
Cash provided by (used in) operating activities	30,586	(11,747)	nmf	145,849	61,395	138 %
Funds Flow From Operations ⁽²⁾	33,667	35,468	(5)%	100,775	101,013	(0.2)%
Capital expenditures						
Expansion Capital ⁽²⁾	7,839	18,191	(57)%	23,406	50,394	(54)%
Maintenance Capital ⁽²⁾	1,649	1,672	(1)%	7,027	11,300	(38)%
Total capital expenditures	9,488	19,863	(52)%	30,433	61,694	(51)%
Dividends declared	3,984	4,012	(1)%	11,972	8,713	37 %
per share	0.0150	0.0150	— %	0.0450	0.0325	38 %
Common Shares Outstanding						
End of period	265,647,874	267,791,315		265,647,874	267,791,315	
Weighted average - basic	265,762,689	268,119,617		266,206,652	268,366,016	
Weighted average - diluted	272,971,478	275,502,020		272,874,517	275,625,388	

Financial Position (\$000s)	As at		
	September 30, 2019	December 31, 2018 ⁽³⁾	%Change
Total assets	1,237,643	1,321,809	(6)%
Working Capital Surplus ⁽²⁾	384,858	435,251	(12)%
Long-term debt ⁽²⁾	370,161	455,591	(19)%
Long-term financial liabilities ⁽¹⁾	396,121	473,980	(16)%
Net Debt ⁽²⁾	32,946	53,586	(39)%
Shareholders' equity	686,491	697,570	(2)%

Notes:

¹Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and lease obligations.

²Refer to "Non-GAAP Measures" or "Operational Definitions" for further detail.

³IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. The adoption of IFRS 16 resulted in the addition of \$19.9 million in lease obligations on January 1, 2019. Refer to "Significant Accounting Policies".

Highlights for the three and nine months ended September 30, 2019 in comparison to the three and nine months ended September 30, 2018 for CES are as follows:

- CES generated \$315.8 million in revenue and achieved Adjusted EBITDAC of \$42.2 million for the three months ended September 30, 2019 ("Q3 2019") and revenue of \$961.7 million and Adjusted EBITDAC of \$127.5 million for the nine months ended September 30, 2019. Net income for three and nine months ended September 30, 2019 was \$7.6 million and \$18.2 million, respectively, compared

to \$5.9 million and \$32.3 million for the comparative 2018 periods. The financial results reported herein for the three and nine months ended September 30, 2019 are reflective of continued improvements in CES' geographic positioning and strategic focus on the US market which generated 72% of the Company's overall revenue in Q3 2019, rationalization efforts to reflect a softened Canadian market, significant exposure to recurring production chemical end markets, realization of operating efficiencies, and capitalizing on the infrastructure buildout in both the US and Canada which was largely completed in 2018.

- CES' Q3 2019 results demonstrate significant exposure to steady production chemical end markets, particularly in the US, allowing the Company to sell higher volumes of its products across a prudent cost structure and generate significant free cash flow through this recurring revenue stream. Concurrently, the drilling fluids business in the US was able to continue to generate strong free cash flow and grow market share in spite of a falling industry rig count in the third quarter. The Canadian oil and gas industry continued to face headwinds throughout the first nine months of 2019 with government mandated production curtailments and drilling activity that was significantly lower than comparable periods in 2018. Softer Canadian end markets were mitigated by improvements in operating efficiencies and rationalization through combining leadership and management of Canadian production chemicals and drilling fluids operations.
- In Q3 2019, CES achieved another consecutive quarter of Adjusted EBITDAC margin improvement, continuing the positive trend from Q4 2018. CES believes that, its financial performance may continue to benefit from increased sales in areas such as the Permian and the Deep Basin, realization of benefits from restructuring efforts, increased operating leverage from its expanded infrastructure completed in 2018 and from our innovative technologies, and superior service culture.
- CES generated revenue of \$315.8 million during Q3 2019, a decrease of \$22.7 million or 7% compared to \$338.5 million in revenue for Q3 2018. Revenue for the nine months ended September 30, 2019 was \$961.7 million as compared to \$923.1 million for the nine months ended September 30, 2018, representing an increase of 4% year-over-year.
 - Revenue generated in the US increased 0.1% and 13% to \$227.3 million and \$689.0 million for the three and nine months ended September 30, 2019, respectively, over the 2018 comparative periods. The year-over-year increase in US revenues was enabled by CES' completed investments in US infrastructure and capabilities to date, significant activity improvement in the drilling fluids business in H1 2019 offset by a decline in industry activity in the US throughout Q3 2019, increased US Drilling Fluids ("DF") Market Share, and increased production chemical related US Treatment Points, particularly in the attractive Permian Basin and Rocky Mountain regions. For Q3 2019, the Company's US source revenues were also positively impacted on translation by weakness in the Canadian Dollar ("CAD") versus US Dollar ("USD"), compared to Q3 2018.
 - Revenue generated in Canada decreased 21% and 13% to \$88.5 million and \$272.7 million for the three and nine months ended September 30, 2019, respectively, over the 2018 comparative periods, primarily due to a decline in drilling activity and continued production curtailments throughout 2019 which was driven by market uncertainty around lack of current oil and gas takeaway capacity. As a result, Canadian oil and gas operators pared back capital spending and year-to-date 2019 drilling activity declined, negatively impacting revenues in CES' Canadian drilling fluids business in Canada for 2019 compared to the same period in 2018. Despite government mandated production curtailment and severe weather conditions that hindered certain deliveries, CES' production chemical business was able to maintain Canadian Treatment Point levels for the three and nine months ended September 30, 2019 when compared to the respective 2018 periods.
- Net income for the three and nine months ended September 30, 2019 was \$7.6 million and \$18.2 million, respectively, compared to \$5.9 million and \$32.3 million for the comparative 2018 periods. On a year to date basis, net income declined primarily as a result of the decline in Canadian revenue for the factors outlined above, an increase in depreciation and amortization expense on a higher depreciable asset base, offset by a decrease in deferred income tax expense of \$0.8 million. On a quarterly basis, net income increased from Q3 2018 to Q3 2019 by 30% primarily due to the decrease in stock based compensation expense, deferred tax expense and executive severance costs offsetting the increase in depreciation and amortization expense. Further description of these items for the three and nine month periods ending September 30, 2019 are found in the Results for the Period section of this MD&A.
- CES generated \$30.6 million and \$145.8 million in cash provided by operating activities during the three and nine months ended September 30, 2019, respectively, both of which represented significant increases from the respective 2018 comparative periods. The improvement in cash provided by operating activities was primarily driven by increased cash flows from changes in working capital in the respective periods. CES continues to maintain a prudent statement of financial position or "balance sheet" and continues to focus on working capital optimization. The Company had a Working Capital Surplus of \$384.9 million as at September 30, 2019

compared to \$435.3 million as at December 31, 2018. The reduction in Working Capital Surplus was driven by the reduction in Canadian activity levels along with a Company wide improvement in working capital conversion in the quarter.

- For the three and nine months ended September 30, 2019, CES incurred \$9.5 million and \$30.4 million in capital expenditures, representing a 52% and 51% reduction from \$19.9 million and \$61.7 million for the three and nine months ended September 30, 2018, respectively. Current quarter capital expenditures are primarily comprised of fleet additions and processing equipment to support the higher US production chemical activity levels, and associated headcount in the US. The Company has invested significantly in building out infrastructure in the US and Canada, and large expansionary projects such as PureChem's Grande Prairie facility for blending and storage of production chemicals and the Kermit mud plant expansion in the Permian Basin were largely completed in 2018.
- On August 22, 2019, the Company completed an amendment and two year extension of its existing syndicated senior facility (the "Senior Facility"). The principal amendments to the Senior Facility include an increase to the US facility from US\$40.0 million to US\$50.0 million to meet the needs of the growing US business, a reduction in the Canadian facility from \$180.0 million to \$170.0 million, the ability for 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.
- At September 30, 2019, CES had a net draw of \$75.3 million on its Senior Facility (December 31, 2018 - \$161.5 million; June 30, 2019 - \$94.8 million). The decrease in the net draw from December 31, 2019 was primarily driven by strong operational free cash flow generation in 2019 used to pay down the Senior Facility, offset by opportunistic repurchases of the Company's common shares under the NCIB. The maximum available draw on the Senior Facility at September 30, 2019 was \$170.0 million on the Canadian facility and US\$50.0 million on the US facility (December 31, 2018 - \$180.0 million and US\$40.0 million, respectively). At September 30, 2019, CES in compliance with the terms and covenants of its Senior Facility. As at the date of this MD&A, the Company had a net draw of approximately \$80.0 million on its Senior Facility.
- On January 1, 2019, the Company adopted IFRS 16 "Leases" using the modified retrospective approach, therefore comparative information has not been restated. The adoption of IFRS 16 resulted in the addition of \$19.9 million in right of use assets and corresponding lease obligations on January 1, 2019. For the three and nine months ended September 30, 2019, the impact of IFRS 16 on Adjusted EBITDAC was an increase of \$1.7 million and \$4.6 million, respectively, whereas the impact on net income was a decrease of \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2019 as the reduction in cost of sales and general and administrative expenses was offset by higher depreciation expense and finance costs. Further details are included in the "Significant Accounting Policies" section at the end of this MD&A.

OUTLOOK

CES' infrastructure buildout in both the US and Canada was largely completed in 2018 and this strategy has positioned the Company to take advantage of the opportunities ahead. CES is confident in its ability to maintain a prudent cost structure with current uncertainty surrounding the level of upstream activity across North America in Q4 2019 and 2020. 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; increase the intensity and size of their fracs; and require increasingly technical and specialized chemical treatments to effectively maintain existing cash flow generating wells and treat growing production volumes and water cuts from new wells.

In the US, CES' infrastructure is largely built out to meet anticipated growing production chemical and drilling fluid needs in the key basins. In the Permian Basin, the Kermit, Texas mud plant expansion has been designed to double capacity over 2017 levels, and has enabled the Company to take on new work and continue to grow market share. In addition, Catalyst's current platform is setup to capitalize on growing production and higher levels of activity in the Permian Basin, which CES believes will be even more pronounced in 2020 as several pipeline projects are on track to add significant offtake capacity. Further, CES continues to recruit top talent in this highly competitive region.

In Canada, market conditions continue to face headwinds due to current takeaway capacity constraints and lack of consistent market access, which caused wide price differentials and relatively low natural gas prices, and government mandated production curtailments. As a result, Canadian oil and gas operators pared back capital programs for 2019 and industry activity declined year-over-year. Price differentials were positively impacted in late 2018 by the mandatory crude oil production curtailments established by the Alberta Government, however customers remain cautious on capital programs in 2019 and 2020. CES believes that its current Canadian business

is well positioned to weather these persistent market challenges through its scalable Canadian drilling fluids business model and through improved financial contribution from its PureChem production chemical division as it realizes ongoing structural efficiency gains and grows into its infrastructure.

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. Operators require increasingly technical solutions and deeper customer-centric coverage models to meet their needs. CES believes that its unique value proposition makes it the premier independent provider of technically advanced consumable chemical solutions to the North American oilfield.

CES' balance sheet is well positioned to capitalize on robust production chemical end markets, while its counter cyclical leverage model allows the Company to remain resilient in the face of potential uncertainty over drilling related industry activity levels in Canada and the US. In August 2019, CES successfully amended and extended its Senior Facility, which has an extended maturity into September 2022. In October 2017, CES successfully re-financed and reduced its coupon on its \$300.0 million Senior Notes by issuing new 6.375% Senior Notes which have an extended maturity into October 2024. In 2019, it is expected that EBITDAC will materially exceed the sum of cash expenditures on interest, taxes, and capital expenditures, allowing for free cash flow to be used to pay down draws on the Company's Senior Facility, and be returned to shareholders through CES' monthly dividend and NCIB.

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

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

RESULTS FOR THE PERIODS

Revenue and Operating Activities

Geographical revenue information relating to the Company's activities and key operating metrics are as follows:

	Revenue					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
<i>\$000s</i>						
United States	227,282	227,100	0.1 %	688,950	608,087	13 %
Canada	88,489	111,411	(21)%	272,746	315,059	(13)%
	315,771	338,511	(7)%	961,696	923,146	4 %

CES Energy Solutions Corp.
Management's Discussion and Analysis
Three and Nine Months Ended September 30, 2019

	Key Operating Metrics					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
US	30,220	29,267	3 %	30,003	28,719	4 %
Canada	7,737	7,801	(1)%	7,943	7,837	1 %
Total Treatment Points ⁽¹⁾	37,957	37,068	2 %	37,946	36,556	4 %
US	10,750	11,011	(2)%	33,487	31,941	5 %
Canada	4,832	7,572	(36)%	13,615	19,484	(30)%
Total Operating Days ⁽¹⁾	15,582	18,583	(16)%	47,102	51,425	(8)%
US	117	120	(3)%	123	117	5 %
Canada	53	82	(35)%	50	72	(30)%
Total Average Rig Count ⁽¹⁾	170	202	(16)%	173	189	(8)%
US industry rig count ⁽²⁾	894	1,034	(14)%	964	1,001	(4)%
Canadian industry rig count ⁽³⁾	147	212	(31)%	139	199	(30)%
US DF Market Share	13%	12%	1 %	13%	12%	1 %
Canadian DF Market Share	36%	39%	(3)%	36%	36%	— %

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

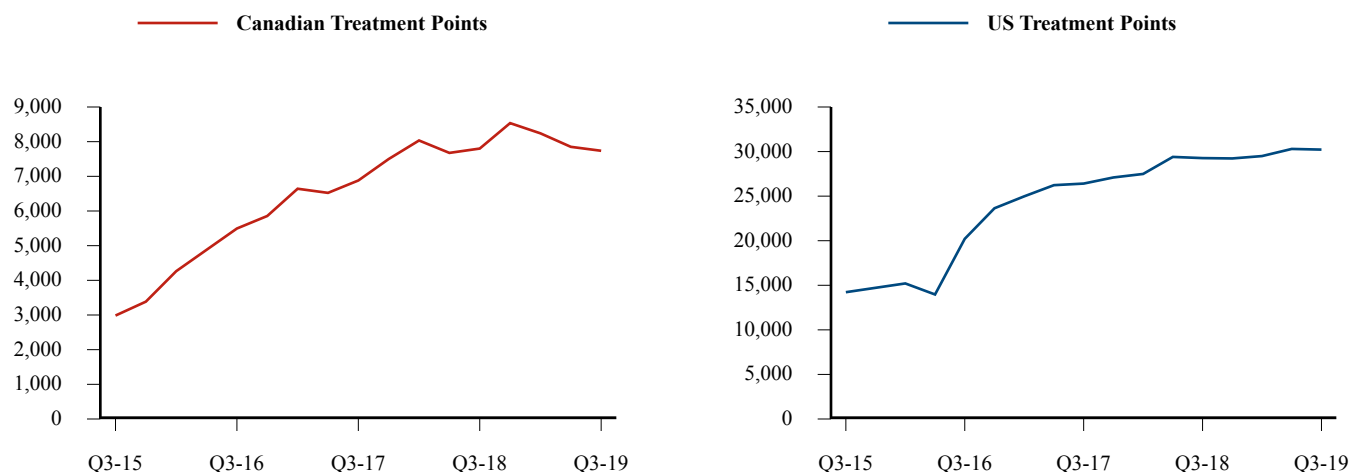
² Based on the monthly average of Baker Hughes published weekly land data for the United States in the referenced period.

³ Based on the monthly average of CAODC published weekly data for Western Canada in the referenced period.

With infrastructure buildout largely complete in 2018, CES' US business was well positioned to capitalize on stable production chemical end markets and grow its drilling fluids market share. As a result, CES generated 72% of its overall revenue in the US for both the three and nine months ended September 30, 2019. US Treatment Points increased by 3% and 4% for the three and nine months ended September 30, 2019, respectively, over the comparative 2018 periods, with increases being primarily in the Permian Basin and Rocky Mountain regions. In the drilling fluids business, although Average Rig Counts in the US were up for the first six months of the year when compared to the respective 2018 period, industry activity fell slightly in Q3 2019 and was 3% lower than Q3 2018. However, CES was able to not only maintain but grow market share in several regions, including in the Permian Basin with the build out of its Kermit, TX mud plant in 2018 and H1 2019.

Persistent industry challenges in Canada resulted in a decline in CES' Canadian revenue for both the three and nine month periods ended September 30, 2019 compared to the same respective periods in 2018. These challenges resulted in significant declines in industry rig counts year over year, negatively impacting the Company's drilling fluids business in Canada as Operating Days fell by 36% and 30% for the three and nine month respective periods. Partially offsetting this decline, CES' production chemical business in Canada has been able to maintain Treatment Points and grow market share, in an environment where there are government mandated production curtailments and severe weather conditions which hindered certain deliveries throughout the course of the year. On a year to date basis, CES was able to maintain its Canadian drilling fluids market share at 36%, despite the industry activity declines. 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.

US Treatment Points and Canadian Treatment Points, excluding the seasonality effect in Canada and the impact of severe weather in 2019 as noted above, have trended upwards as the Company continues to gain market share in the production and specialty chemical end markets. Since Q3 2015, US Treatment Points have increased by 112% and Canadian Treatment Points have increased by 159%. Although absolute Treatment Points are a guiding indicator of activity levels for the production chemical business, these individual treated wells increasingly exhibit higher volumes of produced oil, natural gas, and associated water, which correspondingly requires higher volumes of production chemicals. These favourable characteristics are associated with increased measured depths and higher production volume attributes of many modern wells.



Included in revenue generated in Canada for the three and nine months ended September 30, 2019 is \$2.3 million and \$5.7 million, respectively, (2018 - \$3.1 million and \$7.7 million, respectively) of revenue generated by Clear, the Company's Environmental Services segment. Clear's business has evolved from being primarily levered to drilling activity to a vertically integrated environmental service provider. Clear provides environmental consulting, water management and water transfer services, as well as drilling fluids waste disposal services. With a variety of services, revenue can fluctuate with exposure to large scale and short duration jobs. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

For the three and nine months ended September 30, 2019 and 2018, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Top five customers as a % of total revenue	29%	27%	29%	26%
Top customer as a % of total revenue	13%	11%	13%	11%

Cost of Sales and Gross Margin

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

CES Energy Solutions Corp.
Management's Discussion and Analysis
Three and Nine Months Ended September 30, 2019

Gross Margin and Gross Margin (excluding depreciation) for the three and nine months ended September 30, 2019 and 2018 are as follows:

\$000s	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 ⁽¹⁾	Change	2019	2018 ⁽¹⁾	Change
Gross Margin	68,701	75,949	(7,248)	207,244	214,561	(7,317)
as a percentage of revenue	22%	22%	—%	22%	23%	(1)%
Add back (deduct):						
Depreciation included in cost of sales	12,729	10,289	2,440	39,161	29,709	9,452
Gross Margin (excluding depreciation)	81,430	86,238	(4,808)	246,405	244,270	2,135
as a percentage of revenue	26%	25%	1%	26%	26%	— %

Notes:

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

Throughout 2018 and 2019, cost inflation on significant inputs has outpaced the combination of CES' operating leverage gains and CES' current ability to pass cost increases through to customers. These declines were offset by lower rent expense as a result of the adoption of IFRS 16 on January 1, 2019, continuation of margin improvement resulting from restructuring efforts within the PureChem division, and rationalization of the Canadian drilling fluids business in light of declines in industry activity. CES believes that as it increases sales in areas such as the Permian and the Deep Basin and continues to focus on tactically improving cost structure, CES will realize improved operating leverage from its expanded infrastructure, and its innovative technologies and superior service culture should improve margins going forward.

General and Administrative Expenses ("G&A")

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

\$000s	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 ⁽¹⁾	Change	2019	2018 ⁽¹⁾	Change
General and administrative expenses	48,805	56,397	(7,592)	155,028	159,763	(4,735)
as a percentage of revenue	15%	17%	(2)%	16%	17%	(1)%
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	3,792	7,755	(3,963)	14,257	21,958	(7,701)
Depreciation & amortization	5,816	5,504	312	18,877	16,600	2,277
Executive severance	—	2,450	(2,450)	2,963	2,450	513
Adjusted General and Administrative Costs	39,197	40,688	(1,491)	118,931	118,755	176
as a percentage of revenue	12%	12%	— %	12%	13%	(1)%

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

Throughout 2019, CES took actions to rationalize its Canadian G&A cost base in light of softened market conditions, including reductions in head count, compensation levels and discretionary spending. Furthermore, CES' overall G&A benefited from lower rent expense as a result of the adoption of IFRS 16 on January 1, 2019. Partially offsetting these improvements, CES' US business, particularly on the production chemical side, continued to grow thereby increasing headcounts and compensation levels. As a result, as a percentage of revenue, G&A has decreased or remained consistent for the three and nine months ended September 30, 2019, as compared with the same periods in 2018. As activity levels increase, it is expected that general and administrative expenses will continue to rise as the Company adds headcount to address the needs of its growing business and as the Company experiences some cost inflation. Conversely, if activity levels decrease, CES will diligently manage its G&A cost base in light of market conditions.

Depreciation & Amortization Included in Cost of Sales and G&A

Depreciation & amortization increased in three and nine months ended September 30, 2019 Q3 2019, in comparison to the same periods in 2018, as a result of a higher depreciable asset base as the Company invested significantly in the buildout of its infrastructure in 2018 and further, the adoption of IFRS 16 resulted in an increase in depreciable right of use assets by \$19.9 million on January 1, 2019.

Stock-Based Compensation

Stock-based compensation expense decreased in three and nine months ended September 30, 2019, in comparison to the same periods in 2018, as a result of the timing of equity grants and the reduced price of the Company's common shares year-over-year.

Finance Costs

For the three and nine months ended September 30, 2019 and 2018, finance costs were comprised of the following:

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Interest on debt, net of interest income	6,548	6,530	20,638	18,670
Foreign exchange gain	(186)	(160)	(332)	(48)
Financial derivative (gain) loss	(240)	190	17	(1,409)
Amortization of debt issue costs and premium	293	316	1,008	948
Other finance costs	—	36	36	37
Finance costs	6,415	6,912	21,367	18,198

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

Interest expense

Finance costs for the three and nine months ended September 30, 2019 include interest on debt, net of interest income, of \$6.5 million and \$20.6 million, respectively (2018 - \$6.5 million and \$18.7 million, respectively). Although CES' Senior Facility draw has come down significantly in Q3 2019, for the first six months of 2019, CES carried a higher average net draw balance on its Senior Facility when compared to H1 2018, thereby resulting in higher interest costs for the year to date period. Further, interest costs increased by \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2019, respectively, as a result of the adoption of IFRS 16. Total interest expense relating to the Company's Senior Notes for the three and nine months ended September 30, 2019 was \$4.8 million and \$14.3 million, respectively, consistent with the 2018 periods. Further details are outlined in the Liquidity and Capital Resources section of this MD&A.

Foreign exchange gains and losses

Finance costs for the three and nine months ended September 30, 2019 include a realized and unrealized net foreign exchange gain of \$0.2 million and \$0.3 million, respectively (2018 - net gain of \$0.2 million and \$0.05 million, respectively). The net foreign exchange gain during Q3 2019 is primarily related to foreign exchange gains on the Company's USD denominated cash and net draw balances held in Canada.

Derivative gains and losses

Finance costs for the three and nine months ended September 30, 2019 included a realized and unrealized net derivative gain totaling \$0.2 million and net loss totalling \$0.02 million, respectively (2018 - net loss of \$0.2 million and a net gain of \$1.4 million, respectively) relating to the Company's foreign currency derivative contracts. As of September 30, 2019, the Company had a financial derivative liability of net \$0.03 million relating to its outstanding derivative contracts (December 31, 2018 - net asset of \$0.3 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 September 30, 2019, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian operations:

Period	Notional Balance USD \$000s	Contract Type	Settlement	Average USDCAD Exchange Rate
October 2019	US\$2,000	Deliverable Forward	Physical Purchase	\$1.3304
November 2019	US\$1,500	Deliverable Forward	Physical Purchase	\$1.3301
December 2019	US\$1,500	Deliverable Forward	Physical Purchase	\$1.3298
Total	US\$5,000			\$1.3301

Current and Deferred Income Taxes

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three and nine months ended September 30, 2019 and 2018, income tax expense was comprised of the following:

\$000s	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Current income tax expense	618	770	2,258	2,720
Deferred income tax (recovery) expense	5,231	6,037	10,253	1,510
Total income tax (recovery) expense	5,849	6,807	12,511	4,230

The year-over-year decrease in current income tax expense is primarily related to a decrease in prior year US state taxes in FY 2019. The year-over-year increase in deferred income tax expense is primarily due to the derecognition of US tax losses in 2019 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. During the second quarter of 2019, the Alberta government enacted legislation, which reduces the Alberta corporate tax rate from 12% to 8% over the period July 1, 2019 through January 1, 2022.

Working Capital Surplus and Net Debt

CES continues to maintain a prudent balance sheet and focus on working capital optimization. The Company had a Working Capital Surplus of \$384.9 million as at September 30, 2019 compared to \$435.3 million as at December 31, 2018. In Q3 2019, the Company renewed its annual insurance policies on July 1, 2019, causing an increase in prepaid expenses, and further, CES invested in several longer-term barite shipments in advance of port closures in Corpus Christi throughout the winter. Despite these investments, overall Working Capital Surplus declined as Canadian industry activity levels were down and the Company continued to improve upon its working capital conversion. At September 30, 2019, the Company had Net Debt of \$32.9 million as compared to \$53.6 million at December 31, 2018. Refer to the "Non-GAAP Measures" for further details on the calculation of Net Debt.

Total Long-Term Assets

Year-over-year, total long-term assets of CES decreased by \$34.7 million to \$722.1 million at September 30, 2019 down from \$756.8 million at December 31, 2018. This decrease in long-term assets is partially attributed to the decrease in the deferred income tax asset, as discussed above, and the Company's USD denominated long-term assets which were negatively impacted by the depreciation of the USD versus the CAD on September 30, 2019, compared to December 31, 2018, offset by an increase in right of use assets of \$19.9 million as a result of the adoption of IFRS 16 on January 1, 2019.

Long-Term Financial Liabilities

CES had long-term debt totaling \$370.2 million at September 30, 2019, compared to \$455.6 million at December 31, 2018, a decrease of \$85.4 million. The decrease was primarily driven by free cash flow generation throughout 2019 being used to pay down the Senior Facility, as capital expenditures have declined significantly year over year and investment in working capital has also come down through optimization efforts. Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

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Related Party Transactions

During the three and nine months ended September 30, 2019, CES paid rent of \$0.01 and \$0.04 million, respectively, (2018 - \$0.06 million and \$0.1 million, respectively) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

The following is a summary of selected financial information of the Company for the last eight completed quarters:

	Three Months Ended							
	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Revenue								
United States	227,282	236,776	224,892	239,754	227,100	201,525	179,462	178,411
Canada	88,489	76,161	108,096	108,151	111,411	82,792	120,856	100,420
Revenue	315,771	312,937	332,988	347,905	338,511	284,317	300,318	278,831
Net income	7,637	8,361	2,198	15,467	5,859	13,159	13,250	2,681
<i>per share— basic</i>	0.03	0.03	0.01	0.06	0.02	0.05	0.05	0.01
<i>per share— diluted</i>	0.03	0.03	0.01	0.06	0.02	0.05	0.05	0.01
Adjusted EBITDAC ⁽¹⁾	42,233	41,528	43,713	42,074	45,550	37,477	42,489	41,838
<i>per share— basic</i>	0.16	0.16	0.16	0.16	0.17	0.14	0.15	0.15
<i>per share— diluted</i>	0.15	0.15	0.16	0.15	0.17	0.14	0.15	0.15
Dividends declared	3,984	3,993	3,995	3,994	4,012	2,691	2,010	2,009
<i>per share</i>	0.0150	0.0150	0.0150	0.0150	0.0150	0.0100	0.0075	0.0075
Shares Outstanding								
End of period	265,647,874	265,738,759	266,968,576	265,886,609	267,791,315	269,391,188	268,424,065	267,935,090
Weighted average — basic	265,762,689	266,719,773	266,141,659	266,932,999	268,119,617	268,800,776	268,178,300	267,591,866
Weighted average — diluted	272,971,478	273,085,762	272,078,943	273,294,794	275,502,020	276,608,303	274,569,434	273,782,857

Notes:

¹Refer 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

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

<i>\$000s</i>	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: net 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 from US\$40.0 million to US\$50.0 million, a reduction in the Canadian facility from \$180.0 million to \$170.0 million, the ability for 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. Although the total size of the Senior Facility remains relatively unchanged, the increase in the US facility addresses the needs of the Company's growing US business relative to the Canadian business.

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

As at September 30, 2019, the maximum available draw on the Senior Facility was \$170.0 million on the Canadian facility and US\$50.0 million on the US facility. As at September 30, 2019, the Company had a net draw of \$75.3 million on the Senior Facility (December 31, 2018 - \$161.5 million), with capitalized transaction costs of \$0.7 million (December 31, 2018 - \$0.5 million). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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

<i>\$000s</i>	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

Senior Notes

At September 30, 2019, 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

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

Leases

The Company incurs lease payments under a number of lease arrangements 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%. At September 30, 2019, outstanding lease obligations totalled \$47.6 million as compared to \$33.1 million at December 31, 2018, representing a total increase of \$14.5 million. The increase in lease obligations is primarily due to the adoption of IFRS 16 which resulted in additional lease obligations of \$19.9 million as at January 1, 2019, offset by principal payments made in the first nine months ended September 30, 2019. During the three and nine months ended September 30, 2019, the Company made long-term scheduled debt and lease repayments totalling \$5.2 million and \$16.3 million, respectively, on its leases.

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

<i>\$000s</i>	
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

Other Indebtedness

The following table details the remaining contractual maturities of the Company's financial liabilities as of September 30, 2019:

<i>\$000s</i>	Payments Due By Period ⁽¹⁾					Total
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	
Accounts payable and accrued liabilities	127,977	—	—	—	—	127,977
Dividends payable ⁽²⁾	1,328	—	—	—	—	1,328
Income taxes payable	—	1,175	—	—	—	1,175
Deferred acquisition consideration	—	150	—	—	—	150
Senior Notes ⁽³⁾	—	—	—	—	300,000	300,000
Interest on Senior Notes	9,563	9,563	19,125	57,375	9,563	105,189
Finance lease obligations at fixed interest rates ⁽⁴⁾	207	1,057	2,299	—	—	3,563
Finance lease obligations at floating interest rates ⁽⁴⁾	3,409	17,010	13,842	7,960	1,859	44,080
Commitments ⁽⁵⁾	1,296	463	53	41	—	1,853
	143,780	29,418	35,319	65,376	311,422	585,315

Notes:

¹ Payments denominated in foreign currencies have been translated using the September 30, 2019 exchange rate.

² Dividends declared as of September 30, 2019.

³ The Senior Notes are due on October 21, 2024.

⁴ Lease Obligations reflect principal payments and excludes any associated interest portion.

⁵ Commitments include amounts relating to short-term leases, low-value leases, and capital commitments.

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CES continues to maintain a prudent balance sheet with a Working Capital Surplus of \$384.9 million as at September 30, 2019 (December 31, 2018 - \$435.3 million). At September 30, 2019, the Company had Net Debt of \$32.9 million, a decrease from \$53.6 million at December 31, 2018. Total indebtedness has decreased in 2019 as a result of decreased borrowings on the Senior Facility with reduced working capital levels and capital expenditures, offset by the adoption of IFRS 16 and opportunistic repurchases of the Company's common shares under the NCIB.

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.

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 above table does not include any provisions for any outstanding litigation or potential claims.

Summary of Statements of Cash Flows

The following table summarizes the Company's Statements of Cash Flows for the three and nine months ended September 30, 2019 and 2018:

<i>\$000's</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Net cash provided by (used in)						
Operating Activities	30,586	(11,747)	42,333	145,849	61,395	84,454
Investing Activities	(249)	(25,448)	25,199	(22,090)	(74,081)	51,991
Financing Activities	(30,337)	37,195	(67,532)	(123,759)	12,686	(136,445)

Cash Flows from Operating Activities

For the three months ended September 30, 2019, cash flow from operating activities was an inflow of \$30.6 million, compared to an outflow of \$11.7 million during the three months ended September 30, 2018, with the increase being primarily driven by reduced levels of working capital build in Q3 2019 compared to Q3 2018 and increased net income. Further, the adoption of IFRS 16 results in increased Cash Flows from Operating Activities in Q3 2019 given payments associated with the additional lease obligation of \$19.9 million as at January 1, 2019, which previously were expensed through cost of sales or G&A, are now considered financing cash outflows.

Cash Flows from Investing Activities

For Q3 2019, net cash outflows from investing activities totaled \$0.2 million, as compared to the outflow of \$25.4 million from investing activities during Q3 2018, primarily as a result of reduced capital expenditures in the current quarter and proceeds received on the disposal of assets in Q3 2019. CES continues to be very disciplined on capital expenditures in 2019. As infrastructure build out was largely complete in 2018, CES has reduced cash outlay for expansion and maintenance capital expenditures by 51% for the nine months ended September 30, 2019 as compared to the same period for 2018.

Historically, CES has presented Expansion Capital and Maintenance Capital in the following table including property and equipment financed through leasing arrangements. Upon adoption of IFRS 16, the Company elected to reclassify its assets under finance lease from property and equipment to right of use assets and accordingly, present capital expenditures in the table below excluding these leased amounts. Management views this presentation as a more accurate representation of the cash used for Expansion Capital and Maintenance Capital. Prior period comparatives have been restated to reflect this change. As such, excluded from the table below, in Q3 2019 CES entered into new lease arrangements for \$2.8 million expansion right of use assets and \$2.2 million maintenance right of use assets (Q3 2018 - \$2.2 million expansion and \$4.5 million maintenance).

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Details of cash used for investment in property and equipment are as follows:

<i>\$000's</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Expansion Capital ⁽¹⁾	7,839	18,191	23,406	50,394
Maintenance Capital ⁽¹⁾	1,649	1,672	7,027	11,300
Other capital expenditures ⁽²⁾	—	2,516	—	5,358
Total investment in property and equipment	9,488	22,379	30,433	67,052
Change in non-cash investing working capital	(256)	3,363	3,444	(2,687)
Cash used for investment in property and equipment	9,232	25,742	33,877	64,365

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

For Q3 2019, \$9.2 million of cash was used for investment in property and equipment compared to \$25.7 million for the three months ended September 30, 2018. Notable Expansion Capital expenditures in Q3 2019 include: US\$3.6 million of fleet additions, processing equipment, lab equipment, field equipment and warehouse equipment to support higher production chemical and drilling fluid activity levels and associated headcount in the US and US\$0.6 million for the expansion and addition of blend tanks and warehouse equipment for the Kermit mud plant in the Permian Basin. Notable Maintenance Capital additions during Q3 2019 include: \$0.8 million for trucks and trailers, \$0.7 million for vehicles and \$0.2 million for other maintenance additions.

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. Excluding property & equipment financed through leasing arrangements, CES expects non-acquisition related capital expenditures for fiscal 2019 to be at or below \$50.0 million, representing a decrease of 38% from 2018, as the Company remains committed to maintaining capital discipline. CES anticipates an estimated \$20.0 million will be maintenance capital additions, and an estimated \$30.0 million will be for expansion capital additions. Included in the estimate for expansion capital additions are the following remaining 2019 amounts for significant projects: US\$0.2 million relating to the completion of the Kermit mud plant in the Permian Basin, and US\$0.5 million relating to the expansion of the Company's barite grinding capabilities in the US.

Cash Flows from Financing Activities

For Q3 2019, cash flows from financing activities was an outflow of \$30.3 million compared to an inflow of \$37.2 million in Q3 2018. This year-over-year change is primarily due to the increased free cash flow generated and used to pay down the Senior Facility in the current quarter offset by a reduction in the repurchase and cancellation of common shares through the NCIB as compared Q3 2018. Cash outflows from financing activities are further impacted by the additional repayments of finance leases as a result of the adoption of IFRS 16 and associated increase in lease obligations of \$19.9 million as at January 1, 2019. CES calculated Distributable Earnings based on Cash provided by operating activities, and the Dividend Payout Ratio based on the level of dividends declared as follows:

<i>\$000's</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash provided by operating activities	30,586	(11,747)	145,849	61,395
Adjust for:				
Change in non-cash operating working capital	3,081	47,215	(45,074)	39,618
Less: Maintenance Capital ⁽²⁾	(1,649)	(1,672)	(7,027)	(11,300)
Distributable Earnings ⁽¹⁾	32,018	33,796	93,748	89,712
Dividends declared	3,984	4,012	11,972	8,713
Dividend Payout Ratio ⁽¹⁾	12%	12%	13%	10%

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

Dividend Policy

The Company declared dividends to holders of common shares for the three and nine months ended September 30, 2019, as follows:

<i>\$000s except per share amounts</i>	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

During Q3 2019, CES declared dividends totaling \$0.015 per share as compared to \$0.015 per share for Q3 2018. During Q3 2019, the Company's Dividend Payout Ratio averaged 12% as compared to 12% in Q3 2018. Subsequent to September 30, 2019, the Company declared dividends to holders of common shares in the amount of \$0.005 per common share paid on November 15, 2019, for shareholders of record on October 31, 2019.

CES will continue to be protective of its balance sheet and provide liquidity to fund potential growth initiatives by being prudent with its cash dividend going forward, particularly if the volatility in the oil price environment continues. Through the course of the year, monthly dividends declared as a proportion of net income and distributable earnings will vary based on the Company's financial performance. During periods of relatively strong financial performance, typically associated with higher activity levels, dividends declared as a percentage of net income and cash flow from operations will decrease, and likewise, during periods of relatively weaker financial performance dividends declared as a percentage of net income and cash flow from operations will increase. Dividends are funded by cash provided by operating activities. During periods of insufficient cash availability, due to relatively weaker financial performance or changes in the level of working capital, dividends may be funded by available cash or through CES' credit facilities.

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

Share Capital and Stock-Based Compensation Plans

A summary of the Company's common shares and stock-based compensation plans outstanding is as follows:

	November 14, 2019	September 30, 2019	December 31, 2018
Common shares outstanding	265,191,534	265,647,874	265,886,609
Share Rights Incentive Plan ("SRIP")	9,949,245	10,028,845	12,333,645
Restricted Share Unit Plan ("RSU")	6,574,626	6,705,609	6,267,482

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. A summary of the Company's NCIB program for the three and nine months ended September 30, 2019 is as follows:

<i>\$000s except for share and per share amounts</i>	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Number of shares	Amount	Per share	Number of shares	Amount	Per share
NCIB activity	764,000	1,552	2.03	3,837,103	9,203	2.40

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

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

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

EBITDAC and Adjusted EBITDAC are calculated as follows:

\$000s	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Net income	7,637	5,859	18,196	32,268
Add back (deduct):				
Depreciation on property and equipment in cost of sales	12,729	10,289	39,161	29,709
Depreciation on property and equipment in G&A	2,124	1,164	6,279	3,829
Amortization on intangible assets in G&A	3,692	4,340	12,598	12,771
Current income tax expense	618	770	2,258	2,720
Deferred income tax (recovery) expense	5,231	6,037	10,253	1,510
Stock-based compensation	3,792	7,755	14,257	21,958
Finance costs	6,415	6,912	21,367	18,198
Other (income) loss	(5)	(26)	142	102
EBITDAC	42,233	43,100	124,511	123,065
Add back (deduct):				
Executive severance	—	2,450	2,963	2,450
Adjusted EBITDAC	42,233	45,550	127,474	125,515

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

Distributable Earnings - is defined as Cash provided by operating activities, adjusted for the change in non-cash operating working capital less Maintenance Capital (the definition of Maintenance Capital is under "Operational Definitions"). Distributable Earnings is a measure used by management and investors to analyze the amount of funds available to distribute to shareholders as dividends or through the NCIB program before consideration of funds required for growth purposes.

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

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

Gross Margin (excluding depreciation) is calculated as follows:

\$000s	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 ⁽¹⁾	Change	2019	2018 ⁽¹⁾	Change
Gross Margin	68,701	75,949	(7,248)	207,244	214,561	(7,317)
as a percentage of revenue	22%	22%	—%	22%	23%	(1)%
Add back (deduct):						
Depreciation included in cost of sales	12,729	10,289	2,440	39,161	29,709	9,452
Gross Margin (excluding depreciation)	81,430	86,238	(4,808)	246,405	244,270	2,135
as a percentage of revenue	26%	25%	1%	26%	26%	—%

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

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Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2019

Adjusted General & Administrative Costs - is a non-GAAP term that has been reconciled to General and Administrative expenses for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. It represents general and administrative costs under IFRS adjusted to exclude non-cash expenses recorded in general and administrative costs such as stock-based compensation and depreciation and amortization as it relates to assets not associated with operations and operating related activities, as well as adjusted for specific items that are considered to be non-recurring in nature. Management believes that this metric assists in demonstrating CES' profitability prior to non-cash charges, such as depreciation and amortization and stock based compensation, as well as non-recurring items. This non-GAAP financial measure is also used by management to quantify the administrative costs incurred in managing the Company's business activities prior to certain non-cash charges such as stock-based compensation and non-operational related depreciation.

\$000's	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018 ⁽¹⁾	Change	2019	2018 ⁽¹⁾	Change
General and administrative expenses	48,805	56,397	(7,592)	155,028	159,763	(4,735)
as a percentage of revenue	15%	17%	(2)%	16%	17%	(1)%
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	3,792	7,755	(3,963)	14,257	21,958	(7,701)
Depreciation & amortization	5,816	5,504	312	18,877	16,600	2,277
Executive severance	—	2,450	(2,450)	2,963	2,450	513
Adjusted General and Administrative Costs	39,197	40,688	(1,491)	118,931	118,755	176
as a percentage of revenue	12%	12%	— %	12%	13%	(1)%

¹IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

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 is used by management to assess operating performance and leverage.

Funds Flow From Operation is calculated as follows:

\$000s	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash provided by (used in) operating activities	30,586	(11,747)	145,849	61,395
Adjust for:				
Change in non-cash operating working capital	3,081	47,215	(45,074)	39,618
Funds Flow From Operations	33,667	35,468	100,775	101,013

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 operating performance and leverage of the Company and uses it to monitor its capital structure.

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. Management believes that this metric is a key measure to assess liquidity of the Company and uses it to monitor its capital structure.

Working Capital Surplus and Net Debt are calculated as follows:

\$000's	As at	
	September 30, 2019	December 31, 2018 ⁽³⁾
Long-term financial liabilities ⁽¹⁾	396,121	473,980
Current portion of finance lease obligations	21,683	14,857
Total indebtedness	417,804	488,837
Deduct working capital surplus:		
Current assets	515,519	564,991
Current liabilities ⁽²⁾	(130,661)	(129,740)
Working capital surplus	384,858	435,251
Net Debt	32,946	53,586

Notes:

¹Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and lease obligations.

²Excludes current portion of lease liabilities

³IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, and the possible disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses for the period. Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. The most significant estimates in CES' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2018, and its audited annual consolidated financial statements and notes thereto for the year

ended December 31, 2018, other than as described in Note 3 of the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2019.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set out in Note 2 of the consolidated financial statements for the year ended December 31, 2018, other than as described in Note 3 of the condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018. With the exception of IFRS 16 referred to below, there have been no new standards or interpretations issued during 2019 that significantly impact the Company.

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. On adoption of IFRS 16, CES has elected to record right of use ("ROU") assets equal to 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 payments associated with long-term leases, and discounted using the Company's incremental borrowing rate as of January 1, 2019 which ranges from 4.4% to 6.5%. The adoption of IFRS 16 resulted in the initial recognition of right of use assets and lease obligations of \$19.9 million.

Further, the adoption of IFRS 16 resulted in the following financial impacts in Q3 2019 and 2019 year to date:

- an aggregate reduction in cost of sales and G&A by \$1.7 million and \$4.6 million, respectively, and a corresponding increase to EBITDAC of \$1.7 million and \$4.6 million, respectively;
- increase in depreciation & amortization by \$1.6 million and \$4.4 million, respectively;
- increase in interest expense by \$0.2 million and \$0.7 million, respectively; and
- increase in cash provided by (used) in operating activities and corresponding reduction to cash provided by (used) in financing activities by \$1.4 million and \$3.9 million, respectively.

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 applied 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 \$0.005 million);
- 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.

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 and nine months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

While the President and Chief Executive Officer and Chief Financial Officer believe that CES' DC&P and ICFR provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2018 Annual Report, CES' Annual Information Form dated March 12, 2019 in respect of the year ended December 31, 2018, and CES' Information Circular in respect of the June 10, 2019 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS

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

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

From mid-2014 to early 2016, oil and natural gas prices fell dramatically, resulting in a significant decrease in the level of industry activity in the WCSB and the US. While oil and natural gas prices have 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 and government mandated production curtailments have suppressed production levels and drilling activity in Alberta. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets given the status of several proposed pipeline projects, the potential for a change to US trade policies, tax reform, and potential changes to the crude by rail industry in the face of several derailments. A continued decline in the Canadian market could result in adverse changes to the accounting estimates and judgements made with respect to the Company's assessment of goodwill impairment on its Canadian CGU. These additional risks in Canada could adversely affect CES' Canadian business.

The volatility in the financial markets has impacted the general availability of both credit and equity financing in the marketplace. World-wide political and economic risks seem to be intensifying and, although, the US continues to see strong economic growth, there are added risks and uncertainties around the impact of new policies proposed or implemented by the Trump administration, including, but not limited to, the renegotiation of international trade agreements and the implementation of the newly announced Canada-United States-Mexico Agreement; the potential changes to US trade policies as it relates to US trade with China; and tax reform. Despite CES' successful re-financing of its \$300.0 million Senior Notes in October 2017, in general since the fall of 2014 there has been a retreat in the energy capital markets as a result of low commodity prices and perception regarding government policy and regulations, particularly in Canada. 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. 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 September 30, 2019, CES is in compliance with terms and covenants of all of its lending agreements.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and fourth quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. Due to financial constraints of our customers, this reduced level of activity will likely outlast the typical weather constraints

on a resumption of drilling activity. As the drilling fluids business expands in the US, and as the production focused and infrastructure focused chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced. The ability of CES to sell and expand its services will also depend upon the ability to attract and retain qualified personnel as needed. As the industry recovers from the trough activity levels of 2016, the demand for skilled employees has been increasing and the supply of top quality, experienced talent has been limited. The unexpected loss of CES' key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on CES' results. CES addresses this risk by:

- attracting well trained and experienced professionals;
- offering competitive compensation at all levels;
- ensuring a safe working environment with clearly defined standards and procedures; and
- offering its employees both internal and external training programs.

CES takes its health, safety, and environmental responsibilities seriously and has instituted standards, policies, and procedures to address these risks. In addition, CES maintains insurance policies with respect to its operations providing coverage over what it considers to be material insurable risks. Although the Company maintains insurance policies, such insurance may not provide adequate coverage in all circumstances, nor are all such risks insurable. There can also be assurance that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. It is possible that the Company's insurance coverage will not be sufficient to address the costs arising out of the allocation of liabilities and risk of loss.

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

Government regulations respecting greenhouse gas emissions and carbon pricing have or may be implemented in the jurisdictions in which CES operates. Recently, the Alberta Government has implemented and repealed a carbon levy and at the federal level, the Canadian government has implemented its carbon-pricing scheme, effective January 1, 2019, which will backstop any applicable provincial carbon-pricing framework. As an oilfield service company, CES is not a large-scale emitter of greenhouse gases and does not anticipate the impact of these regulations to be material to its operations. However, the carbon levy may have a material impact on oil and gas producers, which could result in a material adverse effect on demand for CES' products and services. In addition, the potential for future changes in these and other jurisdictions for additional royalties, levies and other taxes, and other climate change related taxes is an on-going risk for the oilfield services sector.

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

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

Reference should be made to CES' Annual Information Form dated March 12, 2019 for the year ended December 31, 2018, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

FORWARD-LOOKING INFORMATION & STATEMENTS

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

In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES’ business and the ability of CES to manage seasonal activity swings; the certainty and predictability of future cash flows and earnings; management’s proposed corporate strategy for the Company; ability of CES to manage overall fluctuations in demand for CES’ products and services; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC or any other source; future estimates as to dividend levels; the potential means of funding dividends and the NCIB; the intention to make future dividend payments; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations or other commitments not included as liabilities on its statement of financial position; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES’ non-acquisition related capital expenditures in 2019, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the repurchase of CES’ common shares pursuant to the NCIB; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and AES facilities; expectations regarding increased headcount and cost inflation related to General and Administrative Costs; management’s opinion of the impact of any potential litigation or disputes; the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES’ financial statements; the collectability of accounts receivable; the effectiveness of CES’ credit risk mitigation strategies; CES’ ability to increase or maintain its market share; expectations regarding the number of Treatment Points in Canada; CES’ ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES’ products and services, including expectations for growth in CES’ production and specialty chemical sales, expected growth in the consumable chemicals market, and the impact of such increased sales on operating leverage and cost structure; impact of new drilling techniques, longer reach laterals and the increased intensity and size of hydraulic fracturing; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels including divergence in activity levels between Canada and the US; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of US tax reform; expectations regarding the impact of production curtailment policies in Alberta; expectations regarding the impact of governmental carbon pricing schemes; expectations regarding expansion of services in Canada and the US; development of new technologies; expectations regarding CES’ growth opportunities in Canada and the US; the effect of acquisitions on the Company; expectations regarding the performance or expansion of CES’ operations; expectations relating to operating efficiencies and rationalization as a result of management changes; expectations regarding end markets for production chemicals and drilling fluids in Canada and the US; expectations regarding the diversification of operations away from the drill-bit; expectations regarding demand for CES’ services and technology; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES’ ability to continue to comply with covenants in debt facilities; expectations regarding the impact of the refinancing of CES’ Senior Notes; and competitive conditions.

CES’ actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in the US, Canada, 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 Permian, the WCSB, and other basins in which the Company operates; a decline in frac related chemical sales; a decline in operator usage of chemicals on wells; an increase in the number of customer well shut-ins; a shift in types of wells drilled; volatility in market prices for oil, natural gas, and natural gas liquids

and the effect of this volatility on the demand for oilfield services generally; the declines in prices for natural gas, natural gas liquids, and oil, and pricing differentials between world pricing, pricing in North America, and pricing in Canada; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the US dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; ability to protect the Company's proprietary technologies; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; changes to government mandated production curtailments; reassessment and audit risk and other tax filing matters; changes and proposed changes to US policies including the potential for tax reform, possible renegotiation of international trade agreements and the implementation of the Canada-United States-Mexico Agreement; international and domestic trade disputes, including restrictions on the transportation of oil and natural gas and regulations governing the sale and export of oil, natural gas and refined petroleum products; divergence in climate change policies between the US and Canada; potential changes to the crude by rail industry; changes to the fiscal regimes applicable to entities operating in the US and WCSB; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates; CES' ability to maintain adequate insurance at rates it considers reasonable and commercially justifiable; and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2018 and "Risks and Uncertainties" in this MD&A.

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

MARKET AND INDUSTRY DATA

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

ADDITIONAL INFORMATION

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

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Trading Symbol: CEU

OTC

Trading Symbol: CESDF

BOARD OF DIRECTORS

Kyle D. Kitagawa^{1,2}
Chairman

John M. Hooks²

Rodney L. Carpenter³

Spencer D. Armour III^{1,2}

Philip J. Scherman¹

Stella Cosby^{2,3}

Thomas J. Simons

¹Member of the Audit Committee

²Member of the Corporate Governance, Nominating and
Compensation Committee

³Member 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 L. Baxter
President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

James M. Pasieka
Corporate Secretary

AUDITORS

Deloitte LLP
Chartered Professional Accountants, Calgary, AB

BANKERS

Scotiabank Canada, Calgary, AB

LEGAL COUNSEL

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

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