CES Energy Solutions

# Q3

*Three and Nine Months Ended September 30, 2018 as at November 8, 2018*

## 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, 2018, and the audited consolidated financial statements and notes thereto of CES for the years ended December 31, 2017 and 2016, and CES' 2017 Annual Information Form. 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 8, 2018, 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 20 for further information on the definition, calculation and reconciliation of the non-GAAP financial measures contained in this MD&A.

## BUSINESS OF CES

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

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

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

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

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

CES continues to see improvement in its financial position and the Company's Board of Directors and management believe that the market price of CES's common shares do not reflect their underlying value. On July 17, 2018, the Company began a normal course issuer bid ("NCIB") to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. In Q3 2018, the Company repurchased 2,700,000 common shares at an average price of $4.574 per share for a total amount $12.4 million. Subsequent to September 30, 2018, the Company purchased 1,300,000 additional shares at a weighted average price per share of $3.601 for a total of $4.7 million.

On June 14, 2018, CES doubled its monthly cash dividend from $0.0025 to $0.005 per common share. During Q3 2018, CES declared dividends totalling $0.015 per share as compared to $0.0075 per share for Q3 2017, resulting in a Dividend Payout Ratio averaging 14% in Q3 2018 as compared to 6% in Q3 2017.

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

# FINANCIAL HIGHLIGHTS

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| *($000s, except per share amounts)* | **2018** | 2017 | % Change | **2018** | 2017 | % Change |
| Revenue | | | | | | |
| United States | **227,100** | 168,912 | 34% | **608,087** | 473,571 | 28% |
| Canada | **111,411** | 91,969 | 21% | **315,059** | 277,238 | 14% |
| | **338,511** | 260,881 | 30% | **923,146** | 750,809 | 23% |
| Gross Margin | **75,949** | 63,876 | 19% | **214,561** | 182,195 | 18% |
| as a percentage of revenue | **22.4%** | 24.5% | | **23.2%** | 24.3% | |
| Gross Margin (excluding depreciation) | **86,238** | 73,017 | 18% | **244,270** | 209,694 | 16% |
| as a percentage of revenue | **25.5%** | 28.0% | | **26.5%** | 27.9% | |
| Net income | **5,859** | 19,437 | (70%) | **32,268** | 33,560 | (4%) |
| *per share – basic* | ***0.02*** | *0.07* | *(71%)* | ***0.12*** | *0.13* | *(8%)* |
| *per share - diluted* | ***0.02*** | *0.07* | *(71%)* | ***0.12*** | *0.12* | *0%* |
| Adjusted EBITDAC [1] | **45,550** | 40,718 | 12% | **125,515** | 112,211 | 12% |
| *per share – basic* | ***0.17*** | *0.15* | *13%* | ***0.47*** | *0.42* | *12%* |
| *per share - diluted* | ***0.17*** | *0.15* | *13%* | ***0.46*** | *0.41* | *12%* |
| Dividends declared | **4,012** | 2,000 | 101% | **8,713** | 5,973 | 46% |
| *per share* | ***0.0150*** | *0.0075* | 100% | ***0.0325*** | *0.0225* | *44%* |

| | As at | | |
|---|---|---|---|
| ***Financial Position ($000s)*** | **September 30, 2018** | December 31, 2017 | % Change |
| Net working capital | **393,660** | 350,475 | 12% |
| Total assets | **1,273,464** | 1,140,667 | 12% |
| Long-term financial liabilities [2] | **458,208** | 414,384 | 11% |
| Net Debt [1] | **64,548** | 63,909 | 1% |
| Shareholders' equity | **649,127** | 593,198 | 9% |

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

Highlights for the three and nine months ended September 30, 2018 in comparison to the three and nine months ended September 30, 2017 for CES are as follows:

- Q3 2018 revenue of $338.5 million and Adjusted EBITDAC of $45.6 million are both record results achieved in any quarter for the Company. The financial results reported herein for 2018 are reflective of continued improvements in CES positioning, industry activity levels, and market conditions in response to commodity price trends. The pick-up in activity continues to be most evident in the US, which represented 67% of CES's Q3 2018 revenue, while Canada's participation has been more muted thus far because of current industry takeaway capacity issues and related oil price differentials, relatively low natural gas prices and weather related challenges in September 2018. The increase in activity has allowed CES to sell higher volumes of its products across its rationalized cost structure, and as a result, the financial results of CES for the three months ended September 30, 2018 ("Q3 2018") have generally improved in comparison to the results achieved for the three months ended September 30, 2017 ("Q3 2017"). As noted throughout 2018, CES continues to deal with year over year cost inflation of the Company's input costs and people costs in certain markets which have outpaced its ability to realize meaningful price increases and mitigated its ability to fully capitalize on operating leverage potential during the nine months ended September 30, 2018.

- Net income for the three and nine months ended September 30, 2018 was $5.9 million and $32.3 million, respectively, compared to $19.4 million and $33.6 million for the 2017 respective periods. EBITDAC for Q3 2018 was $43.1 million as compared to $40.7 million for Q3 2017, representing an increase of $2.4 million or 6%. Excluding CFO-related one-time management transition costs of $2.5 million incurred in the quarter, Adjusted EBITDAC was $45.6 million. Year-to-date EBITDAC was

$123.1 million as compared to $112.2 million for the nine months ended September 30, 2017, representing an increase of $10.9 million or 10%. Excluding one-time CFO-related management transition costs of $2.5 million incurred in the quarter, Adjusted EBITDAC was $125.5 million. Year-over-year, the Company's operating results continued to benefit from increased activity levels due to the improved commodity price environment, and CES' business' in both US and Canada have made positive contributions to revenue, net income and EBITDAC.

- CES generated record revenue of $338.5 million during Q3 2018, an increase of $77.6 million or 30% compared to $260.9 million in revenue for Q3 2017. Revenue for the nine months ended September 30, 2018 was $923.1 million as compared to $750.8 million for the nine months ended September 30, 2017.

    - Revenue generated in the US increased 34% and 28% to $227.1 million and $608.1 million for the three and nine months ended September 30, 2018, respectively, over the 2017 comparative periods. Q3 2018 revenue generated in the US of $227.1 million is the highest US revenue quarter in the Company's history exceeding the previous record quarter for the US which was Q2 2018 with $201.5 million. The year-over-year increase of 34% was enabled by CES' completed investments in US infrastructure and capabilities to date, significant activity improvement in the drilling fluids business and increased US Treatment Points, particularly in the Permian Basin. For Q3 2018, the Company's US source revenues were positively impacted on translation by weakness in the Canadian Dollar ("CAD") versus US Dollar ("USD"), compared to Q3 2017.

    - Coming out of spring break-up, Q3 began on solid footing in Canada until mid-September when weather and ground conditions slowed drilling activity and prevented access for certain production chemical deliveries. Despite these weather conditions, revenue generated in Canada increased 21% and 14% to $111.4 million and $315.1 million for the three and nine months ended September 30, 2018, respectively, over the 2017 comparative periods. PureChem contributed the majority of this gain for the three and nine months ended September 30, 2018 compared to the comparative periods in prior year, as investments in PureChem infrastructure continue to enable increased market share in Canada in the production chemicals business. Revenues in CES' drilling fluids business in Canada also increased in 2018 compared to 2017, due to increased activity in the respective three and nine month periods.

- In Q3 2018, CES recorded Gross Margin of $75.9 million or 22.4% of revenue, compared to Gross Margin of $63.9 million or 24.5% of revenue generated in Q3 2017. Year-to-date Gross Margin totaled $214.6 million, compared to $182.2 million for the nine months ended September 30, 2017, representing an increase of $32.4 million or 18%. In Q3 2018, CES recorded Gross Margin (excluding depreciation) of $86.2 million or 25.5% of revenue, compared to Gross Margin (excluding depreciation) of $73.0 million or 28.0% of revenue generated in Q3 2017. Year-to-date Gross Margin (excluding depreciation) totaled $244.3 million, compared to $209.7 million for the nine months ended September 30, 2017, representing an increase of $34.6 million or 16%. CES continues to benefit from operating leverage in our consumable chemicals business model, except in the Permian where continued strong growth has caused CES' infrastructure to temporarily reach its efficiency capacity as expansionary investments continue to de-bottleneck operations. CES has previously announced expansion plans to its Permian infrastructure to address the needs of its growing Permian businesses. These gains were offset by cost inflation incurred throughout 2018, which has outpaced the Company's ability to pass through its input costs to its customers for its products and services. Further, weather related challenges in Canada during September also temporarily negatively affected Gross Margin as activity levels declined and corresponding lower revenue was over the same fixed cost base. As a result, Gross Margin (excluding depreciation) as a percentage of revenue in Q3 2018 has decreased from Q3 2017. CES believes that as it increases sales in areas such as the Permian and the Deep Basin, CES' operating leverage from its expanded infrastructure, innovative technologies, and superior service culture will improve margins going forward.

- CES continues to maintain a prudent statement of financial position or "balance sheet" with positive net working capital of $393.7 million as at September 30, 2018 (December 31, 2017 – $350.5 million). This increase in net working capital is primarily attributable to record revenue levels increasing accounts receivable, as well as certain opportunistic inventory purchases in the quarter. Furthermore, the $45.1 million increase in net working capital from June 30, 2018 to September 30, 2018 is reflective of the expected seasonally driven working capital build experienced by the Company's Canadian operations and is consistent with the $52.0 million increase in net working capital from June 30, 2017 to September 30, 2017.

- At September 30, 2018, CES had a net draw of $149.4 million on its Senior Facility (December 31, 2017 – $109.3 million), an increase of $56.4 million from June 30, 2018, which is primarily driven by the working capital build referred to above, along with capital expansion incurred in the quarter, which includes the continued buildout of PureChem's Grande Prairie facility and the Kermit mud plant in the Permian Basin and opportunistic share repurchases through CES' NCIB program. The maximum available draw on the Senior Facility at September 30, 2018 was $125.0 million on the Canadian facility and US$40.0 million on the US facility (December 31, 2017 - $125.0 million and US $40.0 million, respectively).

- On November 8, 2018, the Company amended its Senior Facility to exercise $55.0 million of available accordion capacity, increasing the maximum amount available on the Canadian facility from $125.0 million to $180.0 million, in addition to the US$40.0 million on the US facility. All other terms and conditions of the Senior Facility remain unchanged. In early 2016, CES took a voluntary reduction in the amount of $50.0 million on the maximum borrowing amount on its Canadian facility, which provided adequate liquidity during the downturn as working capital returned to the balance sheet in the form of cash. As activity levels have rebounded and market conditions have improved, this $55.0 million increase in availability on the Senior Facility addresses the needs of the Company's growing business in the recovery. As at the date of this MD&A, the Company had a net draw of approximately $160.0 million on its Senior Facility.

## OUTLOOK

CES is very optimistic about its prospects for the remainder of 2018 and beyond. CES' record consolidated revenue result and record US revenue result in Q3 2018 reflect its effective execution in a dynamic environment and CES' strategy has positioned the Company to take advantage of the opportunities ahead. CES believes that over time it can continue to grow its share of the oilfield consumable chemical markets in which it competes. CES also sees the consumable chemical market increasing its share of the oilfield spend as operators continue to: drill longer reach laterals and drill them faster; expand and optimize the utilization of pad drilling and cube development techniques; increase the intensity and size of their fracs; and require increasingly technical and specialized chemical treatments to effectively maintain existing cash flow generating wells and treat growing production from new wells.

In the US, CES' infrastructure is largely built out to meet anticipated growing production chemical and drilling fluid needs in the key basins. In the Permian Basin, the Kermit, Texas mud plant expansion has been designed to double capacity, positioning 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, and CES continues to recruit top talent in this highly competitive region. CES also plans to build a strategically located barite facility in the northeast US in 2019, expanding its existing barite grinding capabilities and further adding to the Company's competitive positioning and operating leverage.

In Canada, CES' production chemical infrastructure is also largely complete, and CES is well positioned to increase financial contribution from its PureChem division as the Company grows into this infrastructure and continues to add scale. In Canada, current industry takeaway capacity issues and a lack of consistent market access has caused differentials to widen significantly, thereby tempering current activity levels by operators. Weather related challenges temporarily limited access in the WCSB and affected CES' Canadian business in Q3 2018, with poor weather conditions continuing into early October. Despite these challenges, CES expects activity levels in Q1 2019 to achieve the higher levels typically seen in the first quarter in Canada, with further clarity on this as operators' capital budgets are finalized during Q4 2018.

CES' strategy is to utilize its decentralized management model; its vertically integrated manufacturing model; its problem solving through science approach; its patented and proprietary technologies; and its superior people and execution to increase market share. The downturn made many middlemen, or competitors who are simply resellers of other company's products, redundant. By being basic in the manufacture of the consumable chemicals it sells, CES continues to be price competitive and a technology leader. Recent competitor consolidations and business failures will provide further opportunities for CES in this recovery period as operators require increasingly technical solutions and deeper customer-centric coverage models to meet their needs. CES believes that its unique value proposition makes it the premier independent provider of technically advanced consumable chemical solutions to the North American oilfield.

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

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

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

## RESULTS FOR THE PERIODS

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | **2018** | 2017 | $ Change | % Change |
| Revenue | **338,511** | 260,881 | 77,630 | 30% |
| Cost of sales | **262,562** | 197,005 | 65,557 | 33% |
| Gross Margin | **75,949** | 63,876 | 12,073 | 19% |
| Gross Margin percentage of revenue | **22%** | 24% | | |
| General and administrative expenses | **56,397** | 44,743 | 11,654 | 26% |
| Finance costs | **6,912** | 7,819 | (907) | (12%) |
| Other income | **(26)** | (42) | 16 | (38%) |
| Income before taxes | **12,666** | 11,356 | 1,310 | 12% |
| Current income tax expense (recovery) | **770** | (5,864) | 6,634 | nmf |
| Deferred income tax expense (recovery) | **6,037** | (2,217) | 8,254 | nmf |
| Net income | **5,859** | 19,437 | (13,578) | (70%) |
| *Net income per share – basic* | ***0.02*** | *0.07* | *(0.05)* | (71%) |
| *Net income per share – diluted* | ***0.02*** | *0.07* | *(0.05)* | (71%) |
| Adjusted EBITDAC (1) | **45,550** | 40,718 | 4,832 | 12% |

| ***Common Shares Outstanding*** | **2018** | 2017 | % Change |
|---|---|---|---|
| End of period | **267,791,315** | 267,582,964 | - |
| Weighted average | | | |
| - basic | **268,119,617** | 266,323,406 | 1% |
| - diluted | **275,502,020** | 273,036,297 | 1% |

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

***Revenue and Operating Activities***
CES generated record quarterly revenue of $338.5 million during Q3 2018, compared to $260.9 million for Q3 2017, an increase of $77.6 million or 30%. Geographical revenue information relating to the Company's activities is as follows:

| | Revenue | | | Revenue | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
| *$000s* | **2018** | 2017 | % Change | **2018** | 2017 | % Change |
| United States | **227,100** | 168,912 | 34% | **608,087** | 473,571 | 28% |
| Canada | **111,411** | 91,969 | 21% | **315,059** | 277,238 | 14% |
| | **338,511** | 260,881 | 30% | **923,146** | 750,809 | 23% |

Estimated Treatment Points, Operating Days, DF Market Share and industry rig counts for the three and nine months ended September 30, 2018, are as follows:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | % Change | **2018** | 2017 | % Change |
| US | **29,267** | 26,409 | 11% | **28,719** | 25,872 | 11% |
| Canada | **7,801** | 6,880 | 13% | **7,837** | 6,682 | 17% |
| Total Treatment Points [(1)] | **37,068** | 33,289 | 11% | **36,556** | 32,554 | 12% |
| US | **11,011** | 9,535 | 15% | **31,941** | 25,336 | 26% |
| Canada | **7,572** | 6,762 | 12% | **19,484** | 19,930 | (2%) |
| Total Operating Days [(1)] | **18,583** | 16,297 | 14% | **51,425** | 45,266 | 14% |
| US DF Market Share | **12%** | 11% | 1% | **12%** | 11% | 1% |
| Canadian DF Market Share | **39%** | 39% | - | **36%** | 39% | (3%) |
| US industry rig count [(2)] | **1,034** | 929 | 11% | **1,001** | 841 | 19% |
| Canadian industry rig count [(3)] | **212** | 190 | 12% | **199** | 185 | 8% |

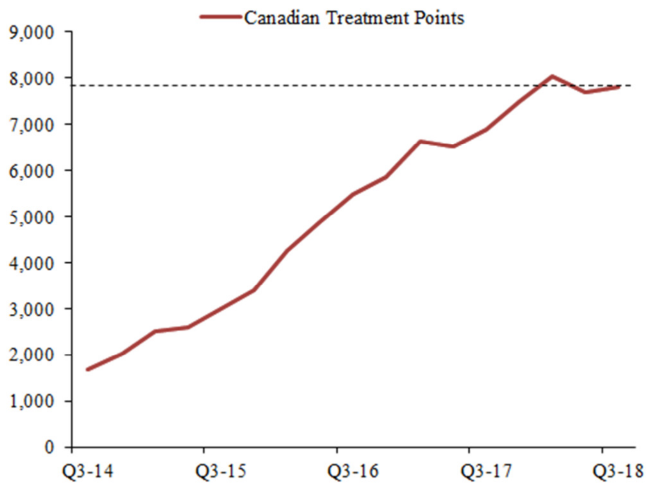
***Notes:***
[1]*Refer to "Operational Definitions" for further detail.*
[2] *Based on the quarterly average of Baker Hughes published weekly land data for the United States.*
[3] *Based on the quarterly average of CAODC published weekly data for Western Canada.*

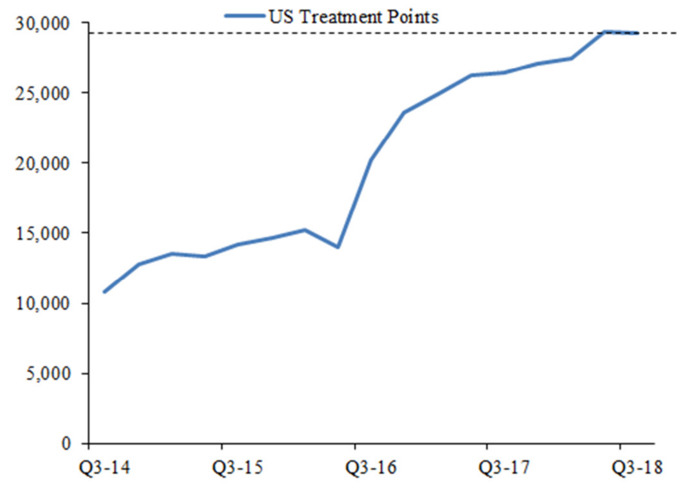
Revenue generated in the US increased 34% and 28% to $227.1 million and $608.1 million for the three and nine months ended September 30, 2018, respectively, over the 2017 comparative periods. CES generated record quarterly revenue in the US of $227.1 million during the three months ended September 30, 2018, the highest US revenue quarter in the Company's history exceeding the previous record quarter for the US which was Q2 2018 with $201.5 million and represented a 13% increase quarter over quarter. The increase in revenue for the respective periods is as a result of the improved market conditions in 2018 with significant activity improvement in the drilling fluids business which outpaced the respective improvements in US industry rig counts, as the Company was able to grow its US DF Market Share in 2018 versus 2017. US Treatment Points have increased by 11% for both the three and nine months ended September 30, 2018 versus the comparative 2017 periods. In addition, the Company's US source revenues were positively impacted by the appreciation of the USD versus the CAD in Q3 2018, compared to Q3 2017.

Coming out of spring break-up, Q3 began on solid footing in Canada until mid-September when weather and ground conditions temporarily slowed drilling activity and prevented access for certain production chemical deliveries. Despite these weather conditions, revenue generated in Canada increased 21% and 14% to $111.4 million and $315.1 million for the three and nine months ended September 30, 2018, respectively, over the 2017 comparative periods. PureChem contributed the majority of this increase for the three and nine months ended September 30, 2018 versus the comparative periods in prior year, as it continued to increase market share in Canada in the production chemicals business. Canadian Treatment Points for Q3 2018 have increased 13% from the comparative period. Sequentially, Canadian Treatment Points increased by 2% in Q3 2018 compared to Q2 2018, growth that was muted as a result of weather related conditions that reduced access to locations and as such limited the number of deliveries during September. Revenues in CES' drilling fluids business in Canada increased in Q3 2018 compared to Q3 2017, due to increased activity in the period. During Q3 2018, the drilling fluids business increased its Operating Days by 12% over Q3 2017, in line with the increase in industry rig counts which increased by 11% over Q3 2017. Q3 2018 Canadian DF Market Share was flat to Q3 2017. Year to date, the year-over-year decrease in the Company's Canadian DF Market Share is reflective of the shift in WCSB activity to shallower, oilier drilling, which is generally simpler to drill and lower revenue work, which historically has not been the main focus of CES' Canadian Drilling Fluids business. CES expects to maintain its leading drilling fluids market share but future Canadian DF Market Share will be dependent on our customers' risk appetite and future spending levels.

As evidenced by the graphs below, US Treatment Points have historically trended upwards as Catalyst and JACAM have gained market share. Excluding the annual Q2 seasonality effect, Canadian Treatment Points have also trended upwards as PureChem continues to gain market share in the production and specialty chemical market. As noted above, the upward trend in Canadian Treatment Points was muted in Q3 2018 as a result of weather related challenges in Canada in September.

## Quarterly Treatment Points




Included in revenue generated in Canada for the three and nine months ended September 30, 2018, is $3.1 million and $7.7 million, respectively, (2017 – $2.6 million and $8.6 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, short duration jobs as was apparent in the nine months ended September 30. 2018. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Top five customers as a % of total revenue | **27%** | 29% | **26%** | 28% |
| Top customer as a % of total revenue | **11%** | 11% | **11%** | 12% |

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

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

Gross Margin and Gross Margin (excluding depreciation) for the three and nine months ended September 30, 2018 and 2017 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| Gross Margin | **75,949** | 63,876 | **214,561** | 182,195 |
| as a percentage of revenue | **22.4%** | 24.5% | **23.2%** | 24.3% |
| Add back (deduct): | | | | |
| Depreciation included in cost of sales | **10,289** | 9,141 | **29,709** | 27,499 |
| Gross Margin (excluding depreciation) | **86,238** | 73,017 | **244,270** | 209,694 |
| as a percentage of revenue | **25.5%** | 28.0% | **26.5%** | 27.9% |

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

In Q3 2018, CES recorded Gross Margin of $75.9 million or 22.4% of revenue, compared to Gross Margin of $63.9 million or 24.5% of revenue generated in Q3 2017. Year-to-date Gross Margin totaled $214.6 million, compared to $182.2 million for the nine months ended September 30, 2017, representing an increase of $32.4 million or 18%. Included in cost of sales in Q3 2018 and the nine months ended September 30, 2018 was $10.3 million and $29.7 million in depreciation and amortization expense, compared to $9.1 million and $27.5 million in Q3 2017 and the nine months ended September 30, 2017. The increase in depreciation and amortization expense compared to Q3 2017 and the nine months ended September 30, 2017 is primarily related to the expansion of the JACAM, Catalyst, and PureChem facilities.

In Q3 2018, CES recorded Gross Margin (excluding depreciation) of $86.2 million or 25.5% of revenue, compared to Gross Margin (excluding depreciation) of $73.0 million or 28.0% of revenue generated in Q3 2017. Year-to-date Gross Margin (excluding depreciation) totaled $244.3 million, compared to $209.7 million for the nine months ended September 30, 2017 representing an increase of $34.6 million or 16%. As a percentage of revenue, Gross Margin (excluding depreciation) has decreased from 28.0% in Q3 2017 to 25.5% in Q3 2018, and from 27.9% in the nine months ended September 30, 2017 to 26.5% in the nine months ended September 30, 2018. With the exception of the pass-through of certain cost increases such as labour and commodity inputs, CES has yet to benefit from any broad based price increases to its customers. Further impacting Gross Margin (excluding depreciation) in Q3 2018 are weather related challenges during September in Canada that resulted in a decline in activity and corresponding lower revenue was over the same fixed cost base. During 2018, cost inflation has outpaced the combination of CES' operating leverage gains and CES' current ability to pass cost increases through to customers. CES believes that as it increases sales in areas such as the Permian and the Deep Basin, CES will realize improved operating leverage from its expanded infrastructure, innovative technologies, and superior service culture will improve margins going forward.

***General and Administrative Expenses ("G&A")***
The table below details the calculation of General and Administrative Costs (excluding stock-based compensation and depreciation) which are 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| General and administrative expenses | **56,397** | 44,743 | **159,763** | 135,526 |
| as a percentage of revenue | **17%** | 17% | **17%** | 18% |
| Deduct non-cash expenses included in general & administrative expenses: | | | | |
| Stock-based compensation | **7,755** | 6,555 | **21,958** | 17,539 |
| Depreciation & amortization | **5,504** | 5,889 | **16,600** | 20,504 |
| General and Administrative Costs (excluding stock-based compensation & depreciation) | **43,138** | 32,299 | **121,205** | 97,483 |
| as a percentage of revenue | **13%** | 12% | **13%** | 13% |

For the three months ended September 30, 2018, general and administrative expenses increased by 26% over the three months ended September 30, 2017, but stayed consistent as a percentage of revenue at 17%. Included in general and administrative expenses in Q3 2018 are one-time CFO-related management transition charges in the amount of $2.5 million. Excluding this amount, general and administrative expenses as a percentage of revenue are at 16% versus 17% in Q3 2017, and the absolute increase from Q3 2017 is $9.2 million, which is attributable to increased headcounts, compensation levels and general corporate cost increases.

For the nine months ended September 30, 2018, general and administrative expenses increased by 18% over the nine months ended September 30, 2017, but decreased as a percentage of revenue at 17% versus 18% in 2017. Excluding the one-time CFO-related management transition impact of $2.5 million, general and administrative expenses have increased by $21.7 million as a result of increased headcounts, compensation levels and general corporate cost increases. As the industry continues to rebound, 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.

Depreciation decreased for the three and nine months ended September 30, 2018, as compared to 2017, as a result of intangible assets relating to two previous acquisitions becoming fully amortized prior to Q3 2018. Year-over-year, excluding the impact of the $2.5 million in one-time CFO-related management transition costs, the Company's General and Administrative costs (excluding stock-based compensation & depreciation) have remained flat as a percentage of revenue, at 13% for Q3 2018 and the nine months ended September 30, 2018, compared to 12% and 13% for the respective comparative periods.

***Finance Costs***

For the three and nine months ended September 30, 2018 and 2017, finance costs were comprised of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| Foreign exchange gain | **(160)** | (145) | **(48)** | (668) |
| Financial derivative loss (gain) | **190** | 1,237 | **(1,409)** | 2,041 |
| Amortization of debt issue costs and premium | **316** | 297 | **948** | 940 |
| Interest on debt, net of interest income | **6,530** | 6,430 | **18,670** | 18,446 |
| Other finance costs | **36** | - | **37** | 169 |
| Finance costs | **6,912** | 7,819 | **18,198** | 20,928 |

*Foreign exchange gains and losses*

Finance costs for the three and nine months ended September 30, 2018 include a realized and unrealized net foreign exchange gain totalling $0.2 million, and $0.05 million, respectively (2017 – net gain of $0.1 million and $0.7 million, respectively). The net foreign exchange gain during the nine months ended September 30, 2018 is primarily related to foreign exchange gains on the Company's USD denominated payables and net draw balances held in Canada and the weakening CAD in 2018 against the USD.

*Derivative gains and losses*

Finance costs for the three and nine months ended September 30, 2018, included a realized and unrealized net derivative loss totalling $0.2 million and a realized and unrealized net derivative gain of $1.4 million, respectively (2017 – net loss of $1.2 million and $2.0 million, respectively), relating to the Company's foreign currency derivative contracts. As of September 30, 2018, the Company had a financial derivative asset of net $0.4 million relating to its outstanding derivative contracts (December 31, 2017 – net liability of $0.5 million).

CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies.

At September 30, 2018, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian operations:

| Period | Notional Balance USD$000s | Contract Type | Settlement | Average USDCAD Exchange Rate |
|---|---|---|---|---|
| October 2018 | US$500 | Deliverable Forward | Physical Purchase | $1.1331 |
| November 2018 | US$500 | Deliverable Forward | Physical Purchase | $1.1339 |
| December 2018 | US$500 | Deliverable Forward | Physical Purchase | $1.1348 |
| January 2019 | US$1,000 | Deliverable Forward | Physical Purchase | $1.2286 |
| February 2019 | US$1,000 | Deliverable Forward | Physical Purchase | $1.2285 |
| Total | US$3,500 | | | $1.1880 |

*Interest expense*
Finance costs for the three and nine months ended September 30, 2018 include interest on debt, net of interest income, of $6.5 million and $18.7 million, respectively (2017 – $6.4 million and $18.5 million, respectively). With respect to interest costs, year-over-year, CES has increased the net draw on the Senior Facility to meet rising working capital demands as the Company grows. The increased draw, along with a rise in short-term interest rates has increased interest costs related to its Senior Facility. The increased interest costs on the Senior Facility have been offset by the decreased cost of borrowing related to the Senior Notes which were refinanced in 2017 at a reduced coupon of 6.375% and are termed out to October 2024. Total interest expense relating to the Company's Senior Notes during the three and nine months ended was $5.1 million and $15.1 million respectively, as compared to $5.4 million and $16.0 million, respectively, in the 2017 periods. Further details are outlined in the Liquidity and Capital Resources section of this MD&A.

***Current and Deferred Income Taxes***
Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three and nine months ended September 30, 2018 and 2017, income tax expense (recovery) was comprised of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2018** | 2017 | **2018** | 2017 |
| Current income tax expense (recovery) | **770** | (5,864) | **2,720** | (3,068) |
| Deferred income tax expense (recovery) | **6,037** | (2,217) | **1,510** | (4,667) |
| Total income tax expense (recovery) | **6,807** | (8,081) | **4,230** | (7,735) |

The year-over-year increase in the current income tax expense year to date is primarily related to the reversal of the accrual for the Conversion transaction recorded in Q3 2017 and increased operating activity in FY 2018, partially offset by a decrease in taxable income in Canada as a result of additional deferred financing costs incurred in Q4 2017. The year-over-year increase in deferred income tax expense is primarily due to US bonus depreciation in 2018 and a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, partially offset by the recognition of tax losses not previously recognized.

***Net Working Capital & Net Debt***
CES continues to maintain a prudent statement of financial position or "balance sheet" with positive net working capital of $393.7 million as at September 30, 2018 (December 31, 2017 – $350.5 million). This increase in net working capital is primarily attributable to record revenue levels increasing accounts receivable, certain opportunistic inventory purchases in the quarter, and opportunistic share repurchases through CES' NCIB program. Furthermore, the increase in net working capital from June 30, 2018 to September 30, 2018 is reflective of the expected seasonally driven working capital build experienced by the Company's Canadian operations.

The increase in working capital from December 31, 2017 is comprised of the following: a $49.4 million increase in inventory, a $22.4 million increase in accounts receivable, a $5.8 million increase in prepaid expenses, and a $4.2 million decrease in current deferred acquisition consideration, offset by a $33.2 million increase in accounts payable, a $4.1 million increase in current portion of finance lease obligations, and a $0.7 million increase in dividends payable. At September 30, 2018, the Company had Net Debt of $64.5 million as compared to $63.9 million at December 31, 2017. Refer to the "Non-GAAP Measures" for further details on the calculation of Net Debt.

***Total Long-Term Assets***

Year-over-year, total long-term assets of CES increased by $55.0 million to $717.8 million at September 30, 2018 up from $662.9 million at December 31, 2017. This increase in long-term assets partially attributed to the Company's USD denominated long-term assets which were positively impacted by the appreciation of the USD versus the CAD in 2018, compared to December 31, 2017.

***Long-Term Financial Liabilities***

CES had long-term debt totalling $443.2 million at September 30, 2018, compared to $402.4 million at December 31, 2017, an increase of $40.8 million. The increase in long-term debt is primarily as a result of increased borrowings on the Senior Facility during the period, due to the build-up of working capital on increased activity levels, opportunistic inventory purchases, and share repurchases through CES' NCIB program.

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

***Shareholders' Equity***

Shareholders' equity increased by $55.9 million from $593.2 million at December 31, 2017 to $649.1 million at September 30, 2018. The increase in shareholders' equity is primarily attributable to the $32.3 million net income for the period, $22.0 million in contributed surplus related to stock-based compensation expense, $14.5 million relating to the issuance of equity under the Company's stock-based compensation plans, and a $21.3 million gain in accumulated other comprehensive income relating to the translation of the Company's wholly-owned USD denominated subsidiaries as USD strengthened from December 31, 2017 to September 30, 2018. The increase was offset by $12.4 million common shares repurchased and cancelled through the NCIB, $8.7 million of dividends declared by the Company during the period, and $13.3 million reclassified from contributed surplus for stock-based compensation plans.

***Related Parties***

During the nine months ended September 30, 2018, CES bought property and equipment with an approximate fair value $0.03 million from an executive officer of the Company, and from companies controlled by the respective executive officer, for a purchase price of $0.03 million. For the three and nine months ended September 30, 2018, CES also paid rent of $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.

*Management Transition*

During the three months ended September 30, 2018, in respect of CFO-related management transition in the period, the Company recorded general and administrative expenses of $2.3 million and stock-based compensation expense of $0.7 million.

# QUARTERLY FINANCIAL SUMMARY

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | **Sep 30, 2018** | Jun 30, 2018 | Mar 31, 2018 | Dec 31, 2017 |
| Revenue | **338,511** | 284,317 | 300,318 | 278,831 |
| Gross Margin | **75,949** | 68,007 | 70,605 | 67,606 |
| Net income | **5,859** | 13,159 | 13,250 | 2,681 |
| *per share– basic* | ***0.02*** | *0.05* | *0.05* | *0.01* |
| *per share– diluted* | ***0.02*** | *0.05* | *0.05* | *0.01* |
| Adjusted EBITDAC[(1)] | **45,550** | 37,477 | 41,390 | 41,838 |
| *per share– basic* | ***0.17*** | *0.14* | *0.15* | *0.15* |
| *per share– diluted* | ***0.17*** | *0.14* | *0.15* | *0.15* |
| Dividends declared | **4,012** | 2,691 | 2,010 | 2,009 |
| *per share* | ***0.0150*** | *0.0100* | *0.0075* | *0.0075* |
| *Shares Outstanding* | | | | |
| End of period | **267,791,315** | 269,391,188 | 268,424,065 | 267,935,090 |
| Weighted average – basic | **268,119,617** | 268,800,776 | 268,178,300 | 267,591,866 |
| Weighted average – diluted | **275,502,020** | 276,608,303 | 274,569,434 | 273,782,857 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| *($000s, except per share amounts)* | Sep 30, 2017 | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 |
| Revenue | 260,881 | 237,576 | 252,352 | 187,704 |
| Gross Margin | 63,876 | 58,534 | 59,785 | 39,983 |
| Net income (loss) | 19,437 | 6,345 | 7,778 | (3,973) |
| *per share– basic* | *0.07* | *0.02* | *0.03* | *(0.02)* |
| *per share– diluted* | *0.07* | *0.02* | *0.03* | *(0.02)* |
| Adjusted EBITDAC[(1)] | 40,717 | 34,879 | 36,615 | 23,755 |
| *per share– basic* | *0.15* | *0.13* | *0.14* | *0.09* |
| *per share– diluted* | *0.14* | *0.13* | *0.13* | *0.09* |
| Dividends declared | 2,000 | 1,990 | 1,983 | 1,965 |
| *per share* | *0.0075* | *0.0075* | *0.0075* | *0.0075* |
| *Shares Outstanding* | | | | |
| End of period | 267,582,964 | 265,614,138 | 264,825,562 | 262,300,999 |
| Weighted average – basic | 266,323,406 | 265,190,677 | 264,169,358 | 261,840,909 |
| Weighted average – diluted | 273,036,297 | 272,217,498 | 272,554,790 | 261,840,909 |

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

***Seasonality of Operations***
The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and last quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of expansion in the US and increased diversification of operations away from the drill-bit.

# LIQUIDITY AND CAPITAL RESOURCES

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

| | As at | |
|---|---|---|
| *$000s* | **September 30, 2018** | December 31, 2017 |
| Senior Facility | **149,917** | 109,926 |
| Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes") | **300,000** | 300,000 |
| | **449,917** | 409,926 |
| Less: net unamortized debt issue costs | **(6,692)** | (7,505) |
| Long-term debt | **443,225** | 402,421 |

***Senior Facility***

The Company has a syndicated Senior Facility which is comprised of a Canadian facility of $125.0 million and a US facility of US$40.0 million. The Senior Facility matures on September 28, 2020, and may be extended by one year upon agreement of the lenders and the Company. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.45% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

On November 8, 2018, the Company amended its Senior Facility to exercise $55.0 million of available accordion capacity, increasing the maximum amount available on the Canadian facility from $125.0 million to $180.0 million in addition to the US$40 million facility. All other terms and conditions of the Senior Facility remain unchanged. In early 2016, CES took a voluntary reduction in the amount of $50.0 million on the maximum borrowing amount on its Canadian facility, which provided adequate liquidity during the downturn as working capital returned to the balance sheet in the form of cash. As activity levels have rebounded and market conditions have improved, this $55.0 million increase in availability on the Senior Facility addresses the needs of the Company's growing business in the recovery.

As at September 30, 2018, the maximum available draw on the Senior Facility was $125.0 million on the Canadian facility and US$40.0 million on the US facility. As at September 30, 2018, the Company had a net draw of $149.4 million on the Senior Facility (December 31, 2017 – $109.3 million), with capitalized transaction costs of $0.5 million (December 31, 2017 – $0.7 million). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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

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

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

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

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

The Company's debt covenant calculations as at September 30, 2018 and December 31, 2017, are as follows:

| | As at | |
|---|---|---|
| *$000s* | **September 30, 2018** | December 31, 2017 |
| Net Senior Debt | **178,576** | 130,376 |
| EBITDA for the four quarters ended | **164,529** | 152,414 |
| Ratio | **1.085** | 0.855 |
| Maximum | **2.500** | 2.500 |
| | | |
| EBITDA for the four quarters ended | **164,529** | 152,414 |
| Interest Expense for the four quarters ended | **26,694** | 26,366 |
| Ratio | **6.164** | 5.781 |
| Minimum | **2.500** | 2.500 |

***Senior Notes***

At September 30, 2018, the Company had $300.0 million of outstanding principal on unsecured senior notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable on the Senior Notes semi-annually on April 21st and October 21st. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2020. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at September 30, 2018, the Company was in compliance with the terms and covenants of its lending agreements.

***Finance Leases***

In addition to the above, CES has vehicle and equipment finance leases which are secured by each related asset at a weighted average interest rate of approximately 5.16%, and have termination dates ranging from October 2018 through March 2022. At September 30, 2018, outstanding vehicle and equipment finance lease obligations totalled $27.3 million as compared to $19.9 million at December 31, 2017, representing a total increase of $7.5 million.

Future minimum lease payments outstanding under the Company's finance lease obligations as at September 30, 2018 are as follows:

| *$000s* | |
|---|---|
| Less than 1 year | **13,412** |
| 1-5 years | **15,431** |
| 5+ years | **-** |
| Total lease payments | **28,843** |
| Amount representing implicit interest | **(1,537)** |
| Finance lease obligations | **27,306** |
| Less: current portion of finance lease obligations | **(12,473)** |
| Long-term finance lease obligations | **14,833** |

During the three months ended September 30, 2018, the Company made long-term scheduled debt and lease repayments totalling $3.0 million on its finance leases.

***Other Indebtedness***
The following table details the remaining contractual maturities of the Company's financial liabilities as of September 30, 2018:

| | Payments Due By Period [1] | | | | | |
|---|---|---|---|---|---|---|
| *$000s* | Less than 3 months | 3 months to 1 year | 1-2 years | 2-5 years | 5+ years | **Total** |
| Accounts payable and accrued liabilities | 145,946 | - | - | - | - | **145,946** |
| Dividends payable [2] | 1,339 | - | - | - | - | **1,339** |
| Income taxes payable | - | 1,855 | - | - | - | **1,855** |
| Deferred acquisition consideration | - | 370 | 150 | - | - | **520** |
| Senior Notes [4] | - | - | - | - | 300,000 | **300,000** |
| Interest on Senior Notes | 9,563 | 9,563 | 19,124 | 57,375 | 28,688 | **124,313** |
| Finance lease obligations at fixed interest rates [3] | 112 | 573 | 717 | 687 | - | **2,089** |
| Finance lease obligations at floating interest rates [3] | 2,053 | 9,735 | 9,646 | 3,783 | - | **25,217** |
| Office and facility rent, and other | 1,727 | 7,844 | 7,441 | 11,264 | 12,957 | **41,233** |
| | 160,740 | 29,940 | 37,078 | 73,109 | 341,645 | **642,512** |

***Notes:***
*[1] Payments denominated in foreign currencies have been translated using the September, 2018 exchange rate.*
*[2]Dividends declared as of September 30, 2018.*
*[3]Finance lease obligations reflect principal payments and excludes any associated interest portion.*
*[4]The Senior Notes are due on October 21, 2024.*

CES continues to maintain a prudent statement of financial position or "balance sheet" with positive net working capital of $393.7 million as at September 30, 2018 (December 31, 2017 – $350.5 million). At September 30, 2018, the Company had Net Debt of $64.5 million, a slight increase from $63.9 million at December 31, 2017. Although total indebtedness has increased in Q3 2018, primarily as a result of increased borrowings on the Senior Facility due to increasing activity levels and resulting build-up of working capital to meet growing customer demands, this increase is largely offset by the growth in working capital in the year.

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

***Cash Flows from Operating Activities***
For the three months ended September 30, 2018, cash flow from operating activities was an outflow of $11.7 million, compared to an outflow of $20.1 million during the three months ended September 30, 2017, with the increase being primarily driven by increased working capital build up in Q3 2017 compared to working capital build up in Q3 2018.

***Cash Flows from Investing Activities***
For the three months ended September 30, 2018, net cash outflows from investing activities totalled $25.4 million, as compared to the outflow of $12.3 million from investing activities during the three months ended September 30, 2017, primarily as a result of increased capital expenditures on property and equipment of $13.4 million offset by a $4.5 million reduction in deferred acquisition consideration.

For the three months ended September 30, 2018, CES used $25.7 million for investment in property and equipment in Q3 2018 (net of $6.7 million in vehicle finance leases). During the quarter, CES had $20.4 million of additions related to Expansion Capital including asset and vehicle financing. Notable expansion additions during the quarter ended September 30, 2018 include: $3.9 million in trucks and trailers, $3.4 million for tanks, $3.0 million for warehouse and facilities, $3.0 million for vehicles, $2.8 million for machinery and field equipment, $2.5 million for land, $1.0 million for processing equipment, and $0.8 million for other expansion additions.

Expansion Capital expenditures in Q3 2018 include PureChem's continued buildout of the Grande Prairie facility for blending and storage of production chemicals, the Kermit mud plant expansion in the Permian Basin, and increased rolling stock attributed to higher production chemical activity levels and associated headcount.

For the three months ended September 30, 2018, CES had $6.1 million of additions related to Maintenance Capital including asset and vehicle financing. Notable maintenance additions during the quarter ended September 30, 2018 include: $3.3 million for vehicles, $1.2 million for trucks and trailers, $0.8 million for warehouse and facilities, and $0.8 million for other maintenance additions. The increase in maintenance capital in Q3 2018 over prior year is primarily due to timing for the replacement of vehicles, in accordance with the Company's fleet policies.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2018** | 2017 | **2018** | 2017 |
| Expansion Capital [1] | **20,431** | 12,196 | **56,844** | 36,875 |
| Maintenance Capital [1] | **6,125** | 4,766 | **19,570** | 14,545 |
| Other capital expenditures [2] | **2,516** | 1,496 | **5,358** | 2,807 |
| Total investment in property and equipment | **29,072** | 18,458 | **81,772** | 54,227 |
| Asset financing and leases | **(6,693)** | (4,073) | **(14,720)** | (11,401) |
| Capital expenditures | **22,379** | 14,385 | **67,052** | 42,826 |
| Change in non-cash investing working capital | **3,363** | (2,060) | **(2,687)** | (2,040) |
| Cash used for investment in property and equipment | **25,742** | 12,325 | **64,365** | 40,786 |

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

Historically, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. For fiscal 2018, CES expects non-acquisition related capital expenditures, including property & equipment financed through leasing arrangements, to be approximately $95.0 million, of which an estimated $22.0 million will be maintenance capital additions, and an estimated $73.0 million will be for expansion capital additions. Included in the estimate for expansion capital additions are the following Q4 2018 amounts for significant projects: $4.1 million relating to the completion of PureChem's Grande Prairie facility, US$2.0 million relating to the completion of the expansion and addition of rail siding for the Kermit mud plant, and US$5.3 million relating to a land purchase for the Company's buildout of a northeast US barite grinding facility, all subject to current approval and construction schedules.

***Cash Flows from Financing Activities***

For the three months ended September 30, 2018, cash flows from financing activities totalled cash inflows of $37.2 million compared $32.4 million in Q3 2017. This year-over-year change is primarily due to increased draws on the Senior Facility due to the buildup of working capital in response to increased industry activity and opportunistic inventory purchases in Q3 2018 compared with Q3 2017, offset by the repurchasing and cancellation of common shares through NCIB and the Company's dividend payments.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000's* | **2018** | 2017 | **2018** | 2017 |
| Cash provided by operating activities | **(11,747)** | (20,145) | **61,395** | (48,858) |
| Adjust for: | | | | |
| Change in non-cash operating working capital | **47,215** | 58,663 | **39,618** | 143,525 |
| Less: Maintenance Capital [(2)] | **(6,125)** | (4,766) | **(19,570)** | (14,545) |
| Distributable Earnings [(1)] | **29,344** | 33,752 | **81,443** | 80,122 |
| Dividends declared | **4,012** | 2,000 | **8,713** | 5,973 |
| Dividend Payout Ratio [(1)] | **14%** | 6% | **11%** | 7% |

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

Distributable Earnings were $29.3 million for the three months ended September 30, 2018, compared with $33.8 million for Q3 2017. During the three months ended September 30, 2018, CES declared monthly dividends totaling $0.015 per share for the quarter. During the third quarter of 2018, the Dividend Payout Ratio was 14% as compared to 6% for the same quarter of 2017.

***Dividend Policy***
The Company declared dividends to holders of common shares for the nine months ended September 30, 2018, as follows:

| *$000s except per share amounts* | **Dividend Record Date** | **Dividend Payment Date** | **Per Common Share** | **Total** |
|---|---|---|---|---|
| January | Jan 31 | Feb 15 | $0.0025 | **669** |
| February | Feb 28 | Mar 15 | $0.0025 | **670** |
| March | Mar 30 | Apr 13 | $0.0025 | **671** |
| April | Apr 30 | May 15 | $0.0025 | **672** |
| May | May 31 | June 15 | $0.0025 | **672** |
| June | June 29 | July 13 | $0.0050 | **1,347** |
| July | July 31 | Aug 15 | $0.0050 | **1,338** |
| August | Aug 31 | Sept 14 | $0.0050 | **1,335** |
| September | Sept 28 | Oct 15 | $0.0050 | **1,339** |
| Total dividends declared during the year | | | $0.0325 | **8,713** |

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, and management's forecast of Distributable Earnings, its forecasted Dividend Payout Ratio, and forecasted capital to be deployed under its NCIB. At this time, CES intends to continue to pay cash dividends to shareholders, but these dividends are not guaranteed. In addition, future expansion, investments, acquisitions, or future share-buy backs under CES' NCIB program may be funded internally by allocating a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES deploys cash flow to finance these activities, the amount of cash dividends to shareholders may be affected. Alternatively, to the extent that CES' sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES' business model has historically shown it can support a proportion of cash flow from operations being paid out as a dividend or through share-buy backs as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated.

On June 14, 2018, CES doubled its monthly cash dividend from $0.0025 per share to $0.005 per share. During Q3 2018, CES declared dividends totalling $0.015 per share as compared to $0.0075 per share for Q3 2017 as a result of this dividend increase. During Q3 2018, the Company's Dividend Payout Ratio averaged 14% as compared to 6% in Q3 2017.

Subsequent to September 30, 2018, the Company declared dividends to holders of common shares in the amount of $0.005 per common share paid November 15, for shareholders of record on October 31, 2018. CES will continue to be protective of its balance sheet and provide liquidity to fund potential growth initiatives by being prudent with its cash dividend going forward, particularly if the volatility in the oil price environment continues.

***Shareholders' Equity***

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's common shares do not reflect their underlying value. As such, on July 17, 2018, the Company began a normal course issuer bid ("NCIB") to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. As of September 30, 2018, the Company has repurchased 2,700,000 common shares at an average price of $4.574 per share for a total amount $12.4 million. Subsequent to September 30, 2018, the Company has repurchased 1,300,000 additional shares at an average price of $3.601 per share for a total amount $4.7 million.

As at September 30, 2018, CES had a total of 267,791,315 common shares outstanding. As of the date of this MD&A, CES had a total of 266,541,315 common shares outstanding.

***Stock-based Compensation***

As at September 30, 2018, a total of 26,779,132 common shares were reserved for issuance under the Company's Restricted Share Unit Plan, which has a sub-limit of 5% of common shares outstanding, Share Rights Incentive Plan, and Stock Settled Director Fee Program, of which 6,339,666 common shares remained available for grant.

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

At September 30, 2018, a total of 14,109,845 Share Rights were outstanding (December 31, 2017 – 14,875,400) at a weighted average exercise price of $6.38 (assuming all SRIP's are exercised at their respective original exercise price) of which 10,437,645 were exercisable. As of the date of this MD&A, an aggregate 13,932,445 Share Rights remaining outstanding, of which 10,312,645 are exercisable.

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

At September 30, 2018, a total of 6,329,621 Restricted Share Units were outstanding (December 31, 2017 – 4,706,493) at a weighted average issuance price of $6.15, none of which have vested. As of the date of this MD&A, an aggregate of 6,394,551 Restricted Share Units remain outstanding.

***Commitments and Contingencies***

At September 30, 2018, CES had the following additional commitments not included as liabilities on its statement of financial position:

| *$000s* | |
|---|---|
| Less than 1 year | 9,571 |
| 1-5 years | 18,705 |
| 5+ years | 12,957 |
| Office and facility rent, and other | **41,233** |

*Payments denominated in foreign currencies have been translated using the September 30, 2018 exchange rate.*

As of the date of this MD&A, given its financial position, CES fully anticipates it will be able to meet these commitments.

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

## NON-GAAP MEASURES

***Changes to Non-GAAP Measures***

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

*EBITDAC*

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

*Cash Gross Margin*

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

*Cash General and Administrative Costs*

The Company has re-labelled its previously reported non-GAAP measure "Cash General & Administrative Costs" as "General Administrative Costs (excluding stock-based compensation & depreciation)" in order to avoid any potential confusion in the composition of the non-GAAP measure.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain supplementary information and measures not recognized under IFRS are also provided in this MD&A where management believes they assist the reader in understanding CES' results. These measures are calculated by CES on a consistent basis unless otherwise specifically explained. These measures do not have a standardized meaning under IFRS and may therefore not be comparable to similar measures used by other issuers. This MD&A does not discuss previously used non-GAAP measures Cash Gross Margin and Cash General and Administrative Costs. The non-GAAP measures used in this MD&A, combined with IFRS measures, are the most appropriate measures for reviewing and understanding the Company's financial results.

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

***EBITDAC*** – is a non-GAAP term that has 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 not reflective of underlying operations. EBITDAC is a metric used to assess the financial performance of an entity's operations. Management believes that this metric provides an indication of the results generated by the Company's business activities prior to how these activities are financed, how the Company is taxed in various jurisdictions, and how the results are impacted by foreign exchange and non-cash charges. This non-GAAP financial measure is also used by management as a key performance metric supporting decision making and assessing divisional results, and is used in the Company's covenant calculations for its Senior Facility (Net Senior Debt to trailing EBITDA and EBITDA to interest expense).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| Net income | **5,859** | 19,437 | **32,268** | 33,560 |
| Add back (deduct): | | | | |
| Depreciation on property and equipment in cost of sales | **10,289** | 9,141 | **29,709** | 27,499 |
| Depreciation on property and equipment in G&A | **1,164** | (97) | **3,829** | 8,581 |
| Amortization on intangible assets in G&A | **4,340** | 5,986 | **12,771** | 11,923 |
| Current income tax expense (recovery) | **770** | (5,864) | **2,720** | (3,068) |
| Deferred income tax expense (recovery) | **6,037** | (2,217) | **1,510** | (4,667) |
| Stock-based compensation | **7,755** | 6,555 | **21,958** | 17,539 |
| Finance costs | **6,912** | 7,819 | **18,198** | 20,928 |
| Other (income) loss | **(26)** | (42) | **102** | (84) |
| EBITDAC | **43,100** | 40,718 | **123,065** | 112,211 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| EBITDAC | **43,100** | 40,718 | **123,065** | 112,211 |
| Add back (deduct): | | | | |
| Management transition costs | **2,450** | - | **2,450** | - |
| Adjusted EBITDAC | **45,550** | 40,718 | **125,515** | 112,211 |

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

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

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

Gross Margin (excluding depreciation) is calculated as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| Gross Margin | **75,949** | 63,876 | **214,561** | 182,195 |
| as a percentage of revenue | **22.4%** | 24.5% | **23.2%** | 24.3% |
| Add back (deduct): | | | | |
| Depreciation included in cost of sales | **10,289** | 9,141 | **29,709** | 27,499 |
| Gross Margin (excluding depreciation) | **86,238** | 73,017 | **244,270** | 209,694 |
| as a percentage of revenue | **25.5%** | 28.0% | **26.5%** | 27.9% |

***General & Administrative Costs* (*excluding stock-based compensation & depreciation)*** – 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. Management believes that this metric assists in demonstrating CES' profitability prior to non-cash charges, such as depreciation and amortization and stock based compensation. This non-GAAP financial measure is also used by management to quantify the administrative costs incurred in managing the Company's business activities prior to certain non-cash charges such as stock-based compensation and non-operational related depreciation.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *$000s* | **2018** | 2017 | **2018** | 2017 |
| General and administrative expenses | **56,397** | 44,743 | **159,763** | 135,526 |
| as a percentage of revenue | **17%** | 17% | **17%** | 18% |
| Deduct non-cash expenses included in general & administrative expenses: | | | | |
| Stock-based compensation | **7,755** | 6,555 | **21,958** | 17,539 |
| Depreciation & amortization | **5,504** | 5,889 | **16,600** | 20,504 |
| General and Administrative Costs (excluding stock-based compensation & depreciation) | **43,138** | 32,299 | **121,205** | 97,483 |
| as a percentage of revenue | **13%** | 12% | **13%** | 13% |

***Net Debt* -** represents total indebtedness, which includes the non-current portion of deferred acquisition consideration, the Senior Facility, the Senior Notes, and both current and non-current portions of finance lease obligations, less working capital surplus. Working capital surplus is calculated as current assets less current liabilities, excluding the current portion of finance lease obligations. Management believes that this metric is a key measure to assess liquidity of the Company and uses it to monitor its capital structure.

Net Debt is calculated as follows:

| | As at | |
|---|---|---|
| *$000's* | **September 30, 2018** | December 31, 2017 |
| Long-term financial liabilities[(1)] | **458,208** | 414,384 |
| Current portion of finance lease obligations | **12,473** | 8,413 |
| Total indebtedness | **470,681** | 422,797 |
| Deduct working capital surplus: | | |
| Current assets | **555,643** | 477,809 |
| Current liabilities[(2)] | **(149,510)** | (118,921) |
| Working capital surplus | **406,133** | 358,888 |
| Net Debt | **64,548** | 63,909 |

***Notes:***

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

[2] *Excludes current portion of finance lease liabilities*

# OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

***US DF Market Share*** – CES estimates its market share in the US for its drilling fluids operations by comparing, on a semi-weekly basis, active rigs where CES was contracted to provide services to the total active land rigs in the United States. The number of total active rigs in the United States is based on the weekly land based Baker Hughes North American Rotary Rig Count.
***Operating Days*** – For its drilling fluids operations, CES estimates its Operating Days, which are revenue generating days, by multiplying the average number of active rigs where CES was providing drilling fluid services by the number of days in the period.

***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, 2017, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2017.

## RECENT ACCOUNTING PRONOUNCEMENTS

***Future accounting policy changes***

The IASB issued IFRS 16 Leases which replaces IAS 17. The standard is effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted but only if the entity is also applying IFRS 15. The new standard introduces a single lessee accounting model and required a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The Company can choose to apply IFRS 16 to its leases either: retrospectively to each prior reporting period presented; or using the cumulative catch-up approach – under which the Standard is applied retrospectively with the cumulative effect recognised at the date of initial application. CES will adopt the new standard on the effective date of January 1, 2019 and is currently evaluating the impact of the IFRS 16 Leases on its financial statement presentation and disclosure requirements.

***Newly adopted accounting standards***

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

CES retrospectively adopted IFRS 9, *"Financial Instruments",* on January 1, 2018. The adoption of the standard has not resulted in any changes to the Company's financial statements and the classification and measurement of financial instruments has been conformed to IFRS 9. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of CES' financial assets. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada. The Company continues to monitor historical credit losses in the US and Canada each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

# CORPORATE GOVERNANCE

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

Disclosure controls and procedures ("DC&P") means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by CES in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by CES in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the CES's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

As at September 30, 2018, DC&P has been designed to provide reasonable assurance that material information relating to CES is made known to senior management, including the President and Chief Executive Officer and Chief Financial Officer, by others in respect of the period ending September 30, 2018 and that the information required to be disclosed by CES in its annual filings, interim filings or other reports filed or submitted by CES under securities legislation is recorded, processed, summarized and reported within the time periods specified under such securities legislation.

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

Management of CES is responsible for establishing and maintaining internal controls over financial reporting ("ICFR"), which is a process designed by, or under the supervision of CES's certifying officers, and effected by CES's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the CES's GAAP and includes those policies and procedures that (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of CES; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the CES's GAAP, and that receipts and expenditures of CES are being made only in accordance with authorizations of management and directors of CES; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the CES's assets that could have a material effect on the annual financial statements or interim financial statements.

There have been no changes to CES' internal controls over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2017 Annual Report, CES' Annual Information Form dated March 1, 2018 in respect of the year ended December 31, 2017, and CES' Information Circular in respect to the June 14, 2018 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

# RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS

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

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

From mid-2014 to early 2016, oil and natural gas prices fell dramatically, resulting in a significant decrease in the level of industry activity in the WCSB and the US. While oil and natural gas prices have steadily improved from the first quarter of 2016, a retracement of oil and natural gas prices to levels seen in early 2016 would likely affect oil and natural gas production levels and therefore reduce the demand for drilling and oilfield services by operators which could have a material adverse effect on CES' business, financial condition, results of operations and cash flows. In addition, in Canada many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets given the status of several proposed pipeline projects, the potential for a change to US trade policies, tax reform, and potential changes to the crude by rail industry in the face of several derailments. These additional risks in Canada could adversely affect CES' Canadian business.

The volatility in the financial markets has impacted the general availability of both credit and equity financing in the marketplace. World-wide political and economic risks seem to be intensifying and, although there is more optimism for stronger economic growth in the US, there are added risks and uncertainties around the impact of new policies proposed by the Trump administration, including, but not limited to, the renegotiation of international trade agreements and the implementation of the newly announced United States-Mexico-Canada Agreement; the potential changes to US trade policies; and tax reform. Despite CES' successful re-financing of its $300.0 million Senior Notes in October 2017, in general since the fall of 2014 there has been a retreat in the energy capital markets as a result of low commodity prices. As such it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit without significant costs. CES is also reliant on its Senior Facility to fund working capital and other growth initiatives. As noted in this MD&A, CES has successfully amended its Senior Facility effective November 8, 2018 to exercise $55.0 million of available accordion capacity. However in the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. At September 30, 2018, CES is in compliance with terms and covenants of all of its lending agreements.

The Western Canadian drilling industry is subject to seasonality with activity usually peaking during the winter months in the first and fourth quarters of any given calendar year. As temperatures rise in the spring, the ground thaws and becomes unstable, resulting in government road bans which severely restrict activity in the second quarter. These seasonal trends typically lead to quarterly fluctuations in Canadian operating results and working capital requirements which should be considered in any quarter over quarter analysis of the Company. Due to financial constraints of our customers, this reduced level of activity will likely outlast the typical weather constraints on a resumption of drilling activity. As the drilling fluids business expands in the US, and as the production focused and infrastructure focused chemical business is built out, it is expected that the overall seasonality of the Company's operations will be less pronounced.

The ability of CES to sell and expand its services will also depend upon the ability to attract and retain qualified personnel as needed. As the industry recovers from the trough activity levels of 2016, the demand for skilled employees has been increasing and the supply of top quality, experienced talent has been limited. The unexpected loss of CES' key personnel or the inability to retain or recruit skilled personnel could have an adverse effect on CES' results. CES addresses this risk by:

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

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

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

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

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

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

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

# 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. The management of CES believes the material factors, expectations and assumptions reflected in the forward-looking information are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information contained in this document speaks only as of the date of the document, and CES assumes no obligation to publicly update or revise such information to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.

In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business 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 2018 and 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, AES and PureChem facilities; expectations regarding increased headcount and cost inflation related to General and Administrative Costs; management's opinion of the impact of any potential litigation or disputes; the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES' financial statements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies; CES' ability to increase or maintain its market share; expectations regarding the number of Treatment Points in Canada; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and specialty chemical sales, expected growth in the consumable chemicals market, and the impact of such increased sales on operating leverage; impact of new drilling techniques, longer reach laterals and the increased intensity and size of hydraulic fracturing; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels including divergence in activity levels between Canada and the U.S; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of proposed changes to Alberta's oil and gas royalty regime; expectations regarding the impact of governmental carbon pricing schemes; expectations regarding expansion of services in Canada and the U.S.; development of new technologies; expectations regarding CES' growth opportunities in Canada and the U.S.; the effect of acquisitions on the Company; expectations regarding the performance or expansion of CES' operations; expectations regarding the diversification of operations away from the drill-bit; expectations that competitor consolidation and business failures will provide future opportunities to CES; expectations regarding demand for CES' services and technology; the potential for CES to expand its business as it relates to water usage and handling; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; expectations regarding the impact of the refinancing of CES's Senior Notes; and competitive conditions.

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

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

# 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's web site at www.cesenergysolutions.com.

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

OTC
Trading Symbol: CESDF

**BOARD OF DIRECTORS**
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Thomas J. Simons

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

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Chief Financial Officer

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Kenneth D. Zandee
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Jason D. Waugh
President, Canadian Production Chemicals

Richard L. Baxter
President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

James M. Pasieka
Corporate Secretary

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**BANKERS**
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**LEGAL COUNSEL**
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