CES Energy Solutions

Condensed Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018 and 2017

CES Energy Solutions Corp.

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

	As at	
	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Accounts receivable	**308,390**	285,976
Financial derivative asset (note 11)	**351**	-
Income taxes receivable	**1,488**	1,601
Inventory	**226,909**	177,558
Prepaid expenses and deposits	**18,505**	12,674
	555,643	477,809
Property and equipment (note 5)	**335,660**	283,985
Intangible assets	**78,238**	79,449
Deferred income tax asset	**10,724**	13,437
Other assets (note 11)	**4,935**	7,521
Goodwill	**288,264**	278,466
	1,273,464	1,140,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**145,946**	112,718
Financial derivative liability (note 11)	**-**	512
Dividends payable (note 9)	**1,339**	670
Income taxes payable	**1,855**	471
Current portion of deferred acquisition consideration	**370**	4,550
Current portion of finance lease obligations	**12,473**	8,413
	161,983	127,334
Deferred acquisition consideration	**150**	520
Long-term debt (note 6)	**443,225**	402,421
Finance lease obligations	**14,833**	11,443
Deferred income tax liability	**4,146**	5,751
	624,337	547,469
Commitments (note 10)		
Shareholders' equity		
Common shares (note 7)	**657,256**	655,028
Contributed surplus	**42,768**	34,142
Deficit	**(191,466)**	(215,021)
Accumulated other comprehensive income	**140,569**	119,049
	649,127	593,198
	1,273,464	1,140,667

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

CES Energy Solutions Corp.

Condensed Consolidated Statements of Net Income and Comprehensive Income (Loss) (unaudited)
(stated in thousands of Canadian dollars, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Revenue	**338,511**	260,881	**923,146**	750,809
Cost of sales	**262,562**	197,005	**708,585**	568,614
Gross margin	**75,949**	63,876	**214,561**	182,195
General and administrative expenses	**56,397**	44,743	**159,763**	135,526
Operating profit	**19,552**	19,133	**54,798**	46,669
Finance costs	**6,912**	7,819	**18,198**	20,928
Other (income) loss	**(26)**	(42)	**102**	(84)
Income before taxes	**12,666**	11,356	**36,498**	25,825
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)
Net income	**5,859**	19,437	**32,268**	33,560
Other comprehensive income (items that may be subsequently reclassified to profit and loss):				
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(12,051)**	(25,319)	**21,329**	(47,551)
Change in fair value of other assets, net of tax	**62**	19	**191**	40
Comprehensive income (loss)	**(6,130)**	(5,863)	**53,788**	(13,951)
Net income per share (note 7)				
Basic	**0.02**	0.07	**0.12**	0.13
Diluted	**0.02**	0.07	**0.12**	0.12

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

CES Energy Solutions Corp.

Condensed Consolidated Statements of Changes in Equity (unaudited)
(stated in thousands of Canadian dollars)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
COMMON SHARES		
Balance, beginning of period	**655,028**	622,665
Consideration for business combinations, net of issuance costs	**-**	12,796
Issued pursuant to stock-based compensation (note 8)	**14,539**	17,477
Issued pursuant to stock settled director fee	**39**	19
Common shares repurchased and cancelled through NCIB (note 7)	**(12,350)**	-
Balance, end of period	**657,256**	652,957
CONTRIBUTED SURPLUS		
Balance, beginning of period	**34,142**	26,116
Reclassified pursuant to stock-based compensation (note 7)	**(13,332)**	(13,877)
Stock-based compensation expense (note 8)	**21,958**	17,539
Balance, end of period	**42,768**	29,778
DEFICIT		
Balance, beginning of period	**(215,021)**	(243,280)
Net income	**32,268**	33,560
Dividends declared (note 9)	**(8,713)**	(5,973)
Balance, end of period	**(191,466)**	(215,693)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	**119,049**	163,336
Unrealized foreign exchange gain (loss) on translation of foreign operations	**21,329**	(47,551)
Change in fair value of other assets, net of tax	**191**	40
Balance, end of period	**140,569**	115,825
	649,127	582,867

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

CES Energy Solutions Corp.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income	**5,859**	19,437	**32,268**	33,560
Adjustments for:				
Depreciation and amortization	**15,793**	15,030	**46,310**	48,003
Stock-based compensation (note 8)	**7,755**	6,555	**21,958**	17,539
Other non-cash loss	**775**	1,032	**241**	1,428
Deferred income tax expense (recovery)	**6,037**	(2,217)	**1,510**	(4,667)
(Gain) on disposal of assets	**(725)**	(1,277)	**(1,376)**	(1,154)
Other (income) loss	**(26)**	(42)	**102**	(42)
Change in non-cash working capital (note 12)	**(47,215)**	(58,663)	**(39,618)**	(143,525)
	(11,747)	(20,145)	**61,395**	(48,858)
FINANCING ACTIVITIES:				
Repayment of finance leases	**(2,974)**	(2,228)	**(7,651)**	(6,780)
Increase in Senior Facility	**56,384**	35,626	**39,526**	92,596
Shareholder dividends	**(4,020)**	(1,995)	**(8,046)**	(5,960)
Issuance of shares, net of issuance costs	**155**	1,017	**1,207**	3,570
Common shares repurchased and cancelled through NCIB (note 7)	**(12,350)**	-	**(12,350)**	-
	37,195	32,420	**12,686**	83,426
INVESTING ACTIVITIES:				
Investment in property and equipment	**(25,742)**	(12,325)	**(64,365)**	(40,786)
Investment in intangible assets	**(1,701)**	(908)	**(7,479)**	(2,547)
Investment in other assets	**89**	(1,313)	**2,468**	(1,635)
Deferred acquisition consideration	**-**	(4,515)	**(4,550)**	(4,515)
Business combinations (note 4)	**-**	-	**(5,315)**	(10,050)
Insurance proceeds on replacement property and equipment	**-**	-	**-**	1,475
Proceeds on disposal of property and equipment	**1,906**	6,786	**5,160**	10,101
	(25,448)	(12,275)	**(74,081)**	(47,957)
CHANGE IN CASH	**-**	-	**-**	(13,390)
Cash, beginning of period	**-**	-	**-**	13,390
Cash, end of period	**-**	-	**-**	-
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	**584**	912	**12,903**	13,007
Income taxes paid	**362**	(6,039)	**1,205**	(4,687)

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

1. The Company

CES Energy Solutions Corp. (the "Company" or "CES") is a company domiciled in Canada. These unaudited condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2018 and 2017 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company" or "CES").

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

2. Basis of Presentation

Statement of Compliance

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard ("IAS") 34, *"Interim Financial Reporting"*, following the same accounting principles and methods of computation as outlined in the Company's consolidated financial statements for the year ended December 31, 2017, with exception to the newly adopted International Financial Reporting Standards ("IFRS") effective January 1, 2018 (IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers as discussed in Note 3 below). A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual consolidated financial statements for the year ended December 31, 2017. These unaudited condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2017. These unaudited condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 8, 2018.

3. 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.

4. Business Combinations

Caradan Chemicals Inc.

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

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

The aggregate purchase price of $4,376 was paid in cash on the closing date. No other consideration or deferred consideration was exchanged.

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

Allocation of preliminary purchase price $000's	
Property and equipment	1,051
Intangible assets	2,000
Goodwill	2,928
Total assets	**5,979**
Current liabilities	(1,603)
Total liabilities	**(1,603)**
Net assets acquired	**4,376**

The amount of revenue and profit or loss attributable to the acquisition from the date of acquisition to September 30, 2018, is not readily determinable. The goodwill recognized on the Caradan Acquisition is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company.

5. Property and Equipment

Property and equipment are comprised of the following balances:

	As at September 30, 2018			As at December 31, 2017		
$000's	**Cost**	**Accumulated Depreciation**	**Carrying Value**	Cost	Accumulated Depreciation	Carrying Value
Buildings & leasehold improvements	**156,057**	**31,655**	**124,402**	127,489	25,584	101,905
Trucks and trailers	**88,910**	**49,305**	**39,605**	71,727	40,583	31,144
Processing equipment	**53,212**	**14,946**	**38,266**	51,886	12,199	39,687
Vehicles	**58,628**	**21,225**	**37,403**	48,018	17,889	30,129
Field equipment	**58,277**	**30,518**	**27,759**	48,168	25,846	22,322
Tanks	**47,166**	**14,647**	**32,519**	40,904	12,380	28,524
Aircraft	**23,293**	**8,401**	**14,892**	22,587	7,419	15,168
Office & computer equipment	**14,338**	**11,017**	**3,321**	12,440	9,663	2,777
Land	**17,493**	**-**	**17,493**	12,329	-	12,329
	517,374	**181,714**	**335,660**	435,548	151,563	283,985

6. Long-Term Debt

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 (the "Senior Facility") which is comprised of a Canadian facility of $125,000 and a US facility of US$40,000. The Senior Facility matures on September 28, 2020, and may be extended by one year upon agreement of the lenders and the Company. Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.45% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

On November 8, 2018, the Company amended its Senior Facility to exercise $55,000 of available accordion capacity, increasing the maximum amount available on the Canadian facility from $125,000 to $180,000. All other terms and conditions of the Senior Facility remain unchanged.

As at September 30, 2018, the maximum available draw on the Senior Facility was $125,000 on the Canadian facility and US$40,000 on the US facility. As at September 30, 2018, the Company had a net draw of $149,391 on the Senior Facility (December 31, 2017 – $109,255), with capitalized transaction costs of $526 (December 31, 2017 – $671). 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

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

For the three and nine months ended September 30, 2018, the Company recorded $6,854 and $19,697, respectively (2017 – $6,734 and $19,361, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of capitalized transaction costs.

Scheduled principal payments on the Company's long-term debt for the next five years at September 30, 2018, are as follows:

$000s	
2018 - 3 months	**-**
2019	**-**
2020	**149,917**
2021	**-**
2022	**-**
2023	**-**
	149,917

7. Share Capital

a) Authorized

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

b) Issued and outstanding

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

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
Common Shares *($000s, except number of shares)*	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of period	**267,935,090**	**655,028**	262,300,999	622,665
Consideration for business combinations, net of share issue costs	**-**	**-**	1,783,745	12,796
Issued pursuant to stock-based compensation	**2,549,106**	**1,207**	3,846,450	4,712
Contributed surplus related to stock-based compensation	**-**	**13,332**	-	14,829
Issued pursuant to stock settled director fee	**7,119**	**39**	3,896	26
Common shares repurchased and cancelled through NCIB	**(2,700,000)**	**(12,350)**	-	-
Balance, end of period	**267,791,315**	**657,256**	267,935,090	655,028

Normal Course Issuer Bid ("NCIB")

On July 17, 2018, the Company began a normal course issuer bid to repurchase for cancellation up to 24,587,978 common shares. The NCIB will terminate on July 16, 2019 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. 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 $12,350. 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 $4,681.

c) Net income per share

In calculating the basic and diluted net income per share for the three and nine months ended September 30, 2018 and 2017, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s, except share and per share amounts	**2018**	2017	**2018**	2017
Net income	**5,859**	19,437	**32,268**	33,560
Weighted average number of shares outstanding:				
Basic shares outstanding	**268,119,617**	266,323,406	**268,366,016**	265,235,704
Effect of dilutive shares	**7,382,403**	6,712,891	**7,259,372**	7,284,708
Diluted shares outstanding	**275,502,020**	273,036,297	**275,625,388**	272,520,412
Net income per share - basic	**$0.02**	$0.07	**$0.12**	$0.13
Net income per share - diluted	**$0.02**	$0.07	**$0.12**	$0.12

Excluded from the calculation of dilutive shares for the three and nine months ended September 30, 2018, are 10,832,113 and 10,975,020 of Share Rights, respectively (2017 – 10,232,200 and 7,921,000 of Share Rights) that are considered anti-dilutive.

8. Stock-Based Compensation

As at September 30, 2018, a total of 26,779,132 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 6,339,666 common shares remained available for grant. For the three and nine months ended September 30, 2018, stock compensation expense of $7,755 and $21,958 (2017 – $6,555 and $17,539, respectively) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

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

a) Share Rights Incentive Plan ("SRIP")

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

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of period	**14,875,400**	**$6.38**	14,045,400	$6.26
Granted during the period	**210,000**	**6.07**	3,281,400	5.99
Exercised during the period	**(267,955)**	**4.50**	(1,158,400)	4.07
Expired during the period	**(97,000)**	**6.08**	(114,000)	3.57
Forfeited during the period	**(610,600)**	**7.22**	(1,179,000)	6.03
Balance, end of period	**14,109,845**	**$6.38**	14,875,400	$6.38
Exercisable Share Rights, end of period	**10,437,645**	**$6.70**	7,167,332	$7.23

The compensation costs for Share Rights granted during the nine months ended September 30, 2018, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Nine Months Ended September 30, 2018
Risk-free interest rate	**1.86%**
Expected average life of Share Rights	**3.2 years**
Share Right term	**5.0 years**
Annual forfeiture rate	**7.96%**
Dividend yield	**0.25%**
Expected volatility	**52.89%**
Weighted average share price	**$6.07**
Weighted average fair value per Share Right	**$2.28**

The following table summarizes information about the outstanding grants under the Company's SRIP as at September 30, 2018:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$3.10 - $4.83	3,397,045	$4.19	2.84	2,146,045	$4.19
$4.84 - $6.77	2,969,800	5.89	3.75	995,600	5.88
$6.78 - $7.07	4,688,000	6.88	1.74	4,523,000	6.90
$7.08 - $7.37	1,527,000	7.25	0.90	1,301,000	7.25
$7.38 - $10.98	1,528,000	9.75	0.93	1,472,000	9.84
	14,109,845	$6.38	2.25	10,437,645	$6.70

b) Restricted Share Unit ("RSU") Plan

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

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

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of period	**4,706,493**	**$5.98**	4,858,585	$6.19
Granted during the period	**3,986,155**	**6.04**	2,806,886	6.66
Reinvested during the period	**39,710**	**6.00**	23,798	5.61
Vested during the period	**(2,281,151)**	**5.67**	(2,688,050)	5.11
Forfeited during the period	**(121,586)**	**5.56**	(294,726)	5.24
Balance, end of period	**6,329,621**	**$6.15**	4,706,493	$5.98

The weighted average fair value of RSUs granted during the nine months ended September 30, 2018, was $6.04 per RSU (2017 - $6.70). The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the nine months ended September 30, 2018, was reduced by an estimated weighted average forfeiture rate of 5.15% per year at the date of grant.

9. Dividends

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**

On June 14, 2018, CES doubled its monthly cash dividend from $0.0025 to $0.005 per common share. Subsequent to September 30, 2018, the Company declared dividends to holders of common shares in the amount of $0.005 per common share payable on November 15, 2018 for shareholders of record on October 31, 2018.

10. Commitments and Contingencies

The Company has commitments with payments due as follows:

$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.

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

11. Financial Instruments and Risk Management

a) *Financial instrument measurement and classification*

The carrying values of accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value. The Senior Notes are recorded at their amortized cost.

CES classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The following table aggregates the Company's financial derivatives and investments available for sale in accordance with the above hierarchy:

$000s	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at September 30, 2018					
Financial derivative asset	351	351	-	351	-
Financial derivative liability	-	-	-	-	-
Other assets	4,935	4,935	4,935	-	-
	5,286	5,286	4,935	351	-
As at December 31, 2017					
Financial derivative asset	-	-	-	-	-
Financial derivative liability	(512)	(512)	-	(512)	-
Other assets	7,521	7,521	7,521	-	-
	7,009	7,009	7,521	(512)	-

12. Supplemental Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s	**2018**	2017	**2018**	2017
(Increase) decrease in current assets				
Accounts receivable	**(61,305)**	(47,287)	**(18,109)**	(108,730)
Inventory	**(9,749)**	(19,425)	**(45,884)**	(48,167)
Prepaid expenses and deposits	**(3,193)**	(1,471)	**(5,605)**	(6,059)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**23,669**	11,580	**32,667**	21,471
	(50,578)	(56,603)	**(36,931)**	(141,485)
Relating to:				
Operating activities	**(47,215)**	(58,663)	**(39,618)**	(143,525)
Investing activities	**(3,363)**	2,060	**2,687**	2,040

For the three and nine months ended September 30, 2018 and 2017, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Condensed Consolidated Statements of Cash Flows.

13. Geographical Information

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

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

	Long-Term Assets [(1)]	
$000s	**September 30, 2018**	December 31, 2017
United States	**557,448**	443,992
Canada	**149,649**	205,429
	707,097	649,421

[(1)] Includes: Property and equipment, intangible assets, other assets and goodwill

14. Related Parties

During the nine months ended September 30, 2018, CES bought property and equipment for a purchase price of $320 from an executive officer of the Company, and from companies controlled by the respective executive officer. For the three and nine months ended September 30, 2018, CES also paid rent of $57 and $116, respectively, to an executive officer of the Company for use of a temporary rental property. These transactions approximate fair value and 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, the Company recorded general and administrative expenses of $2,300 and stock-based compensation expense of $693 in respect of one-time CFO-related management transition costs.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

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Thomas J. Simons

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

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Kenneth D. Zandee
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President, Canadian Production Chemicals

Richard L. Baxter
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Vernon J. Disney
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James M. Pasieka
Corporate Secretary

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LEGAL COUNSEL
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