



**Condensed Consolidated Financial Statements**

**For the Three and Nine Months Ended September 30, 2020 and 2019**

**CES Energy Solutions Corp.**

## Condensed Consolidated Statement of Financial Position (unaudited)

(stated in thousands of Canadian dollars)

|                                                       | As at              |                   |
|-------------------------------------------------------|--------------------|-------------------|
|                                                       | September 30, 2020 | December 31, 2019 |
| <b>ASSETS</b>                                         |                    |                   |
| Current assets                                        |                    |                   |
| Cash                                                  | 29,401             | —                 |
| Accounts receivable                                   | 129,922            | 257,480           |
| Financial derivative asset                            | 161                | —                 |
| Income taxes receivable                               | 910                | 88                |
| Inventory (note 4)                                    | 189,432            | 220,472           |
| Prepaid expenses and deposits                         | 17,505             | 21,780            |
|                                                       | <b>367,331</b>     | <b>499,820</b>    |
| Property and equipment (note 5)                       | 291,182            | 301,874           |
| Right of use assets (note 6)                          | 45,245             | 52,739            |
| Intangible assets                                     | 51,909             | 61,410            |
| Deferred income tax asset                             | 13,953             | 2,918             |
| Other assets                                          | 15,489             | 12,054            |
| Goodwill (note 7)                                     | 53,161             | 288,957           |
|                                                       | <b>838,270</b>     | <b>1,219,772</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                    |                   |
| Current liabilities                                   |                    |                   |
| Accounts payable and accrued liabilities              | 70,526             | 127,071           |
| Financial derivative liability                        | —                  | 78                |
| Dividends payable (note 12)                           | —                  | 1,320             |
| Income taxes payable                                  | 506                | 1,573             |
| Current portion of deferred acquisition consideration | —                  | 150               |
| Current portion of lease obligations                  | 21,428             | 21,766            |
|                                                       | <b>92,460</b>      | <b>151,958</b>    |
| Long-term debt (note 8)                               | 284,375            | 362,785           |
| Lease obligations                                     | 15,720             | 23,080            |
| Deferred income tax liability                         | 2,386              | 2,639             |
| Other long-term liabilities (note 11)                 | 275                | —                 |
|                                                       | <b>395,216</b>     | <b>540,462</b>    |
| Commitments (note 13)                                 |                    |                   |
| Shareholders' equity                                  |                    |                   |
| Common shares (note 10)                               | 666,852            | 660,174           |
| Contributed surplus                                   | 36,855             | 42,686            |
| Deficit                                               | (432,133)          | (165,829)         |
| Accumulated other comprehensive income                | 171,480            | 142,279           |
|                                                       | <b>443,054</b>     | <b>679,310</b>    |
|                                                       | <b>838,270</b>     | <b>1,219,772</b>  |

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

**CES Energy Solutions Corp.**

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

|                                                                                                     | Three Months Ended September 30, |         | Nine Months Ended September 30, |          |
|-----------------------------------------------------------------------------------------------------|----------------------------------|---------|---------------------------------|----------|
|                                                                                                     | 2020                             | 2019    | 2020                            | 2019     |
| Revenue                                                                                             | <b>166,293</b>                   | 315,771 | <b>675,233</b>                  | 961,696  |
| Cost of sales                                                                                       | <b>133,911</b>                   | 247,070 | <b>554,102</b>                  | 754,452  |
| Gross margin                                                                                        | <b>32,382</b>                    | 68,701  | <b>121,131</b>                  | 207,244  |
| General and administrative expenses                                                                 | <b>35,970</b>                    | 48,805  | <b>128,056</b>                  | 155,028  |
| Operating (loss) profit                                                                             | <b>(3,588)</b>                   | 19,896  | <b>(6,925)</b>                  | 52,216   |
| Finance costs                                                                                       | <b>5,993</b>                     | 6,415   | <b>18,476</b>                   | 21,367   |
| Impairment of goodwill (note 7)                                                                     | —                                | —       | <b>248,905</b>                  | —        |
| Other (gain) loss                                                                                   | <b>(98)</b>                      | (5)     | <b>(672)</b>                    | 142      |
| (Loss) income before taxes                                                                          | <b>(9,483)</b>                   | 13,486  | <b>(273,634)</b>                | 30,707   |
| Current income tax expense                                                                          | <b>636</b>                       | 618     | <b>1,602</b>                    | 2,258    |
| Deferred income tax expense (recovery)                                                              | <b>2,606</b>                     | 5,231   | <b>(11,880)</b>                 | 10,253   |
| Net (loss) income                                                                                   | <b>(12,725)</b>                  | 7,637   | <b>(263,356)</b>                | 18,196   |
| Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss): |                                  |         |                                 |          |
| Unrealized foreign exchange (loss) gain on translation of foreign operations                        | <b>(12,482)</b>                  | 8,843   | <b>28,740</b>                   | (22,649) |
| Change in fair value of other assets, net of tax                                                    | <b>111</b>                       | 6       | <b>461</b>                      | 242      |
| Comprehensive (loss) income                                                                         | <b>(25,096)</b>                  | 16,486  | <b>(234,155)</b>                | (4,211)  |
| Net (loss) income per share (note 10)                                                               |                                  |         |                                 |          |
| Basic                                                                                               | <b>(0.05)</b>                    | 0.03    | <b>(1.00)</b>                   | 0.07     |
| Diluted                                                                                             | <b>(0.05)</b>                    | 0.03    | <b>(1.00)</b>                   | 0.07     |

*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, |           |
|------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                              | 2020                            | 2019      |
| <b>COMMON SHARES</b>                                                         |                                 |           |
| Balance, beginning of period                                                 | 660,174                         | 651,116   |
| Issued pursuant to stock-based compensation (note 11)                        | 13,805                          | 20,940    |
| Issued pursuant to stock settled director fee                                | 44                              | 49        |
| Common shares repurchased and canceled through NCIB (note 10)                | (7,171)                         | (9,202)   |
| Balance, end of period                                                       | 666,852                         | 662,903   |
| <b>CONTRIBUTED SURPLUS</b>                                                   |                                 |           |
| Balance, beginning of period                                                 | 42,686                          | 47,204    |
| Reclassified pursuant to stock-based compensation (note 10)                  | (13,805)                        | (20,940)  |
| Stock-based compensation expense (note 11)                                   | 7,974                           | 14,257    |
| Balance, end of period                                                       | 36,855                          | 40,521    |
| <b>DEFICIT</b>                                                               |                                 |           |
| Balance, beginning of period                                                 | (165,829)                       | (179,993) |
| Net (loss) income                                                            | (263,356)                       | 18,196    |
| Dividends declared (note 12)                                                 | (2,948)                         | (11,972)  |
| Balance, end of period                                                       | (432,133)                       | (173,769) |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>                                |                                 |           |
| Balance, beginning of period                                                 | 142,279                         | 179,243   |
| Unrealized foreign exchange gain (loss) on translation of foreign operations | 28,740                          | (22,649)  |
| Change in fair value of other assets, net of tax                             | 461                             | 242       |
| Balance, end of period                                                       | 171,480                         | 156,836   |
|                                                                              | 443,054                         | 686,491   |

*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, |           |
|----------------------------------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                                                | 2020                             | 2019     | 2020                            | 2019      |
| <b>CASH PROVIDED BY (USED IN):</b>                             |                                  |          |                                 |           |
| <b>OPERATING ACTIVITIES:</b>                                   |                                  |          |                                 |           |
| Net (loss) income                                              | (12,725)                         | 7,637    | (263,356)                       | 18,196    |
| Adjustments for:                                               |                                  |          |                                 |           |
| Depreciation and amortization                                  | 18,346                           | 18,545   | 58,030                          | 58,038    |
| Stock-based compensation (note 11)                             | 2,540                            | 3,792    | 8,593                           | 14,257    |
| Other non-cash loss (gain)                                     | 328                              | (39)     | 15,814                          | 2,081     |
| Deferred income tax expense (recovery)                         | 2,606                            | 5,231    | (11,880)                        | 10,253    |
| Gain on disposal of assets                                     | (691)                            | (1,499)  | (765)                           | (2,050)   |
| Gain on repurchase of senior unsecured notes                   | (62)                             | —        | (182)                           | —         |
| Impairment of goodwill                                         | —                                | —        | 248,905                         | —         |
| Change in non-cash working capital (note 14)                   | 29,958                           | (3,081)  | 101,506                         | 45,074    |
|                                                                | 40,300                           | 30,586   | 156,665                         | 145,849   |
| <b>FINANCING ACTIVITIES:</b>                                   |                                  |          |                                 |           |
| Repurchase of senior unsecured notes                           | (938)                            | —        | (1,818)                         | —         |
| Repayment of lease obligations                                 | (5,575)                          | (5,193)  | (17,672)                        | (16,327)  |
| Decrease in Senior Facility                                    | (294)                            | (19,607) | (79,563)                        | (86,257)  |
| Shareholder dividends                                          | —                                | (3,985)  | (4,268)                         | (11,973)  |
| Common shares repurchased and cancelled through NCIB (note 10) | (2,366)                          | (1,552)  | (7,171)                         | (9,202)   |
|                                                                | (9,173)                          | (30,337) | (110,492)                       | (123,759) |
| <b>INVESTING ACTIVITIES:</b>                                   |                                  |          |                                 |           |
| Investment in property and equipment                           | (3,294)                          | (9,232)  | (21,643)                        | (33,877)  |
| Investment in intangible assets                                | (195)                            | (576)    | (935)                           | (1,787)   |
| Distribution of (investment in) other assets                   | (2,945)                          | 54       | (2,669)                         | (349)     |
| Deferred acquisition consideration                             | —                                | —        | (150)                           | (337)     |
| Proceeds on disposal of assets                                 | 5,374                            | 9,505    | 9,291                           | 14,260    |
|                                                                | (1,060)                          | (249)    | (16,106)                        | (22,090)  |
| Effect of foreign exchange on cash                             | (666)                            | —        | (666)                           | —         |
| <b>CHANGE IN CASH</b>                                          | <b>29,401</b>                    | <b>—</b> | <b>29,401</b>                   | <b>—</b>  |
| Cash, beginning of period                                      | —                                | —        | —                               | —         |
| Cash, end of period                                            | 29,401                           | —        | 29,401                          | —         |
| <b>SUPPLEMENTARY CASH FLOW DISCLOSURE</b>                      |                                  |          |                                 |           |
| Interest paid                                                  | 781                              | 1,803    | 13,522                          | 16,124    |
| Income taxes paid                                              | 1,855                            | 607      | 3,632                           | 3,217     |

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

## **CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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### **1. The Company**

CES Energy Solutions Corp. (the “Company” or “CES”) is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES’ principal place of business is located at Suite 1400, 332 – 6<sup>th</sup> Avenue SW, Calgary, Alberta, Canada T2P 0B2. The condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2020 and 2019 comprise the accounts of the Company and its subsidiaries (together referred to as the “Company” or “CES”).

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

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

#### *Statement of Compliance*

These condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. These 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 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, 2019. These condensed consolidated financial statements were authorized for issue by the Company’s Board of Directors on November 12, 2020.

### **3. Significant Accounting Policies, Estimates and Judgments**

These condensed consolidated financial statements have been prepared following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended December 31, 2019. 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, 2019 with exception to the below.

The preparation of the condensed consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. These condensed consolidated financial statements include estimates which, by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. The current market conditions introduce additional uncertainties, risks and complexities in management’s determination of the estimates and assumptions used to prepare CES’ financial results. As the COVID-19 pandemic and volatility in financial markets is an evolving situation, management cannot reasonably estimate the length or severity of the impact on CES. As such, actual results may differ from estimates and the effect of such differences may be material. The impacts of such estimates are pervasive throughout the condensed consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Assumptions made relate to, but are not limited to, the following: determination of cash generating units (“CGU”), determination of lease terms, accounts receivable and provisions for expected credit losses, inventories, depreciation and amortization, recoverability of asset carrying values, fair value of outstanding derivatives, stock-based compensation, income taxes, and other provisions and contingencies.

#### *Government grants*

Government grants are recognized when the Company has reasonable assurance that it has complied with the relevant conditions of the grant and that it will be received. The Company recognizes the grant against the financial statement line item that it is intended to compensate.

#### *Stock-based compensation - cash settled transactions*

CES has adopted a Phantom Share Unit (“PSU”) plan effective June 23, 2020. PSUs are awarded to non-executive employees and entitle the holder to the cash-equivalent of the five day volume weighted average share price of the Company’s common shares plus reinvested notional dividends upon maturity. Stock-based compensation expense and a corresponding liability for PSUs is based on the estimated fair value of the units outstanding at the end of each quarter, calculated using a five day volume weighted average share price and recognized over the vesting period. Upon maturity, the cash settlement paid reduces the outstanding liability. The liability relating to PSUs is included in accounts payable and accrued liabilities and other long-term

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liabilities in the consolidated statement of financial position and the expense is included in stock-based compensation expense in the consolidated statement of net (loss) income and comprehensive (loss) income.

Management makes an estimate of the number of PSUs that will be forfeited and the rate is adjusted to reflect the actual number of units that vest. Consequently, the actual stock-based compensation expense associated with the Company's stock-based compensation plan may vary from the amount estimated.

**4. Inventory**

During the three and nine months ended September 30, 2020, the Company recorded \$nil and \$12,283, respectively, of inventory valuation write-downs as certain commodity based products were revalued to net realizable value to reflect current prices (2019 - \$nil).

**5. Property and Equipment**

|                                       |                |
|---------------------------------------|----------------|
| <b>Balance at December 31, 2019</b>   | <b>301,874</b> |
| Additions                             | 21,298         |
| Disposals, net of amortization        | (6,293)        |
| Amortization                          | (31,662)       |
| Effect of movements in exchange rates | 5,965          |
| <b>Balance at September 30, 2020</b>  | <b>291,182</b> |

**6. Right of Use Assets**

|                                       |               |
|---------------------------------------|---------------|
| <b>Balance at December 31, 2019</b>   | <b>52,739</b> |
| Additions                             | 9,337         |
| Disposals, net of amortization        | (2,417)       |
| Amortization                          | (14,924)      |
| Effect of movements in exchange rates | 510           |
| <b>Balance at September 30, 2020</b>  | <b>45,245</b> |

**7. Goodwill**

|                                       | <b>Canadian Operations</b> | <b>US Operations <sup>(1)</sup></b> | <b>Total</b>   |
|---------------------------------------|----------------------------|-------------------------------------|----------------|
| <b>Balance at December 31, 2019</b>   | <b>79,589</b>              | <b>209,368</b>                      | <b>288,957</b> |
| Impairment of goodwill                | (79,589)                   | (169,316)                           | (248,905)      |
| Effect of movements in exchange rates | —                          | 13,109                              | 13,109         |
| <b>Balance at September 30, 2020</b>  | <b>—</b>                   | <b>53,161</b>                       | <b>53,161</b>  |

<sup>1</sup>Amounts denominated in foreign currencies have been translated at the respective period-end exchange rates

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated. At March 31, 2020, the Company noted indicators of impairment due to the significant decline in commodity prices and the resulting reduction in demand for the Company's products and services. The Company's impairment analysis indicated that the recoverable amount of the net assets for each CGU did not exceed its respective carrying value and resulted in goodwill impairment of \$248,905. The Company did not identify any triggers for further impairment testing at June 30, 2020 or September 30, 2020.

For the March 31, 2020 impairment analysis, the recoverable amount of the net assets for each CGU was based on their value in use and was estimated to be US\$475,180 for the US Operations CGU and \$253,256 for the Canadian Operations CGU. The key assumptions for the value in use calculations were the expected growth rates in future cash flows and the discount rates. At March 31, 2020 an estimated risk adjusted, pre-tax discount rate of 13.5% and 14.1% (December 31, 2019 - 13.5% and 13.7%)

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was used for the US Operations CGU and Canadian Operations CGU, respectively. For both CGUs, the Company used a 2.0% terminal growth rate (December 31, 2019 - 2.0%). The Company prepared cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 29% in 2020 to positive 21% in later years for the US Operations CGU and a range of negative 21% in 2020 to positive 19% in later years for the Canadian Operations CGU. The growth or decline rates represented management's assessment of future industry trends and were based on both external and internal sources, as well as historical data. Future cash flows were based on various judgments and estimates including actual performance of the business, management's estimates of future performance, and indicators of future industry activity levels. At March 31, 2020, there was considerable uncertainty as to the level of demand for the Company's products and services which increased the estimation uncertainty associated with the future cash flows used in the goodwill impairment tests. Assumptions that were valid at the time of estimating the recoverable amount of each CGU may change significantly as new information becomes available.

The estimated recoverable amount for the US CGU is sensitive to changes in the terminal growth rate and the estimated risk adjusted, pre-tax discount rates used. A decrease of 1.0% in the terminal growth rate or an increase of 0.5% of the estimated risk adjusted, pre-tax discount rate would have resulted in an additional goodwill impairment of US\$23,838 or US\$21,087, respectively, for the US CGU as at March 31, 2020.

**8. Long-Term Debt**

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

|                                                                                                           | As at              |                   |
|-----------------------------------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                                                           | September 30, 2020 | December 31, 2019 |
| Senior Facility                                                                                           | —                  | 77,341            |
| Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes") | 288,954            | 290,954           |
|                                                                                                           | 288,954            | 368,295           |
| Less: unamortized debt issue costs                                                                        | (4,579)            | (5,510)           |
| Long-term debt                                                                                            | 284,375            | 362,785           |

*Senior Facility*

The Company has a syndicated senior facility (the "Senior Facility") which is comprised of a Canadian facility of \$170,000 and US facility of US\$50,000. The Senior Facility matures on September 28, 2022, subject to certain terms and conditions, and the Senior Facility may be extended by one year upon agreement of the lenders and the Company.

Amounts drawn on the Senior Facility incur interest at the bank's prime rate or US base rate plus an applicable pricing margin ranging from 0.25% to 1.00% or the Canadian Bankers' Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.25% to 2.00%. The Senior Facility has a standby fee ranging from 0.25% to 0.40%. The applicable pricing margins are based on a sliding scale of Net Senior Debt to EBITDA ratio. The obligations and indebtedness under the Senior Facility are secured by all of the assets of CES and its subsidiaries.

As at September 30, 2020, the Company's Senior Facility was undrawn (December 31, 2019 - net draw of \$76,725) and the Company held a net cash balance of \$29,402 (December 31, 2019 - \$nil). As such, at September 30, 2020, CES' Senior Facility was fully accessible with a maximum draw of \$170,000 on the Canadian facility and US\$50,000 on the US facility.

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. At the Company's option, CES may elect to reduce the EBITDA to interest expense covenant minimum to 1.50:1.00 for three consecutive quarters, and would be subject to an asset coverage test during this reduced interest coverage period if exercised.



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

- Net Senior Debt is defined as Total Net Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. Effective Q2 2020, EBITDA also includes all amounts recognized on account of wage subsidy programs in connection with the COVID-19 pandemic, including the CEWS program, provided that such amounts do not exceed the costs in which they are meant to offset, or are subject to any repayment obligation.
- Total Net Debt is defined as all obligations, liabilities, and indebtedness excluding future income tax liabilities and deferred tax credits, office leases, other leases characterized as an operating lease, and accrued interest not yet due and payable. Total Net Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

The covenant calculations as at September 30, 2020 and December 31, 2019, are as follows:

|                                              | As at              |                   |
|----------------------------------------------|--------------------|-------------------|
|                                              | September 30, 2020 | December 31, 2019 |
| Net Senior Debt                              | <b>(4,948)</b>     | 107,812           |
| EBITDA for the four quarters ended           | <b>108,351</b>     | 159,980           |
| Ratio                                        | <b>(0.046)</b>     | 0.674             |
| Maximum                                      | <b>2.500</b>       | 2.500             |
|                                              |                    |                   |
| EBITDA for the four quarters ended           | <b>108,351</b>     | 159,980           |
| Interest Expense for the four quarters ended | <b>23,312</b>      | 26,226            |
| Ratio                                        | <b>4.648</b>       | 6.100             |
| Minimum                                      | <b>2.500</b>       | 2.500             |

*Senior Notes*

On June 10, 2020, the Company repurchased and canceled \$1,000 of its Senior Notes for an aggregate purchase price of \$880 resulting in a gain of \$120 recorded against finance costs. On August 28, 2020, the Company repurchased and canceled \$1,000 of its Senior Notes for an aggregate purchase price of \$938 resulting in a gain of \$62 recorded against finance costs. As at September 30, 2020, the Company had \$288,954 of remaining outstanding principal on its Senior Notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable semi-annually on April 21 and October 21. 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. 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. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at September 30, 2020, the Company was in compliance with the terms and covenants of its lending agreements. For the three and nine months ended September 30, 2020, the Company recorded \$5,738 and \$18,643, respectively (2019 - \$6,878 and \$21,709 respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

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

Scheduled principal payments on the Company's long-term debt at September 30, 2020, are as follows:

|                     |                |
|---------------------|----------------|
| 2020 - 3 months     | —              |
| 2021                | —              |
| 2022                | —              |
| 2023                | —              |
| 2024                | 288,954        |
| 2025 and thereafter | —              |
|                     | <b>288,954</b> |

**9. Government Grants**

During the nine months ended September 30, 2020, the Company applied for the Canada Emergency Wage Subsidy ("CEWS") which was enacted on April 11, 2020 by the Government of Canada as part of its COVID-19 Economic Response Plan. During the three and nine months ended September 30, 2020, the Company qualified for the CEWS program and recognized \$5,557 and \$11,834, respectively as a reduction to wage expense. During the three months ended September 30, 2020, \$2,897 and \$2,660 was allocated to cost of sales and general and administrative expenses, respectively. During the nine months ended September 30, 2020, \$6,185 and \$5,649 was allocated to cost of sales and general and administrative expenses, respectively.

**10. 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<br>September 30, 2020 |                | Year Ended<br>December 31, 2019 |          |
|---------------------------------------------------------|-----------------------------------------|----------------|---------------------------------|----------|
|                                                         | Number of<br>Shares                     | Amount         | Number of<br>Shares             | Amount   |
| <b>Common Shares</b>                                    |                                         |                |                                 |          |
| Balance, beginning of period                            | <b>263,956,291</b>                      | <b>660,174</b> | 265,886,609                     | 651,116  |
| Issued pursuant to stock-based compensation             | <b>3,527,895</b>                        | —              | 3,847,713                       | —        |
| Contributed surplus related to stock-based compensation | —                                       | <b>13,805</b>  | —                               | 22,144   |
| Issued pursuant to stock settled director fee           | <b>42,449</b>                           | <b>44</b>      | 23,672                          | 60       |
| Common shares repurchased and canceled through NCIB     | <b>(4,958,677)</b>                      | <b>(7,171)</b> | (5,801,703)                     | (13,146) |
| Balance, end of period                                  | <b>262,567,958</b>                      | <b>666,852</b> | 263,956,291                     | 660,174  |

*Normal Course Issuer Bid ("NCIB")*

On July 16, 2020, the Company announced the renewal of its previous NCIB, which ended on July 16, 2020, to repurchase for cancellation up to 19,025,236 common shares, being 7.5% of the public float of common shares at the time of renewal. The renewed NCIB will terminate on July 20, 2021 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election.

Since inception of the Company's NCIB programs and up to September 30, 2020, the Company has repurchased 15,560,280 common shares at an average price of \$2.56 per share for a total amount \$39,849. For the nine months ended September 30, 2020 the Company repurchased 4,958,677 common shares at an average price of \$1.45 for a total amount of \$7,171. Subsequent to September 30, 2020, the Company repurchased 2,430,500 additional shares at a weighted average price of \$0.73 for a total of \$1,774.

**CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

*c) Net income per share*

In calculating the basic and diluted net (loss) income per share for the three and nine months ended September 30, 2020 and 2019, 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, |             |
|------------------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                                | 2020                             | 2019        | 2020                            | 2019        |
| Net (loss) income                              | <b>(12,725)</b>                  | 7,637       | <b>(263,356)</b>                | 18,196      |
| Weighted average number of shares outstanding: |                                  |             |                                 |             |
| Basic shares outstanding                       | <b>264,841,429</b>               | 265,762,689 | <b>263,760,203</b>              | 266,206,652 |
| Effect of dilutive shares                      | —                                | 7,208,789   | —                               | 6,667,865   |
| Diluted shares outstanding                     | <b>264,841,429</b>               | 272,971,478 | <b>263,760,203</b>              | 272,874,517 |
| Net (loss) income per share - basic            | <b>(\$0.05)</b>                  | \$0.03      | <b>(\$1.00)</b>                 | \$0.07      |
| Net (loss) income per share - diluted          | <b>(\$0.05)</b>                  | \$0.03      | <b>(\$1.00)</b>                 | \$0.07      |

Excluded from the calculation of dilutive shares for the three and nine months ended September 30, 2019 are 10,334,845 and 11,245,738, respectively of Share Rights that are considered anti-dilutive.

**11. Stock-Based Compensation**

For the three and nine months ended September 30, 2020, stock-based compensation expense of \$2,540 and \$8,593, respectively (2019 – \$3,792 and \$14,257, respectively) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans. As at September 30, 2020, a total of 13,128,398 common shares were reserved for issuance under the Company's Restricted Share Unit Plan and Stock Settled Director Fee Program, of which 4,459,859 common shares remained available for grant.

*a) 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, 2020 |               | Year Ended December 31, 2019 |               |
|------------------------------|--------------------------------------|---------------|------------------------------|---------------|
|                              | Restricted Share Units               | Average Price | Restricted Share Units       | Average Price |
| Balance, beginning of period | <b>6,411,540</b>                     | <b>\$3.79</b> | 6,267,482                    | \$6.03        |
| Granted during the period    | <b>5,941,372</b>                     | <b>0.93</b>   | 4,542,907                    | 2.52          |
| Reinvested during the period | <b>72,224</b>                        | <b>3.52</b>   | 169,009                      | 4.51          |
| Vested during the period     | <b>(3,527,895)</b>                   | <b>3.91</b>   | (3,847,713)                  | 5.76          |
| Forfeited during the period  | <b>(228,702)</b>                     | <b>3.63</b>   | (720,145)                    | 4.96          |
| Balance, end of period       | <b>8,668,539</b>                     | <b>\$1.81</b> | 6,411,540                    | \$3.79        |

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, 2020, was reduced by an estimated weighted average forfeiture rate of 0.12% per year at the date of grant.

**CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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**b) Phantom Share Unit ("PSU") Plan**

Effective June 23, 2020, the Company implemented the PSU Plan which provides cash-settled incentives to eligible non-executive employees and Consultants of the Company and its Affiliates through the issuance of PSUs. The PSUs generally vest over 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 PSUs will be entitled to the dividend equivalents in the form of additional PSUs on each dividend payment date, to be held in the PSU account until such time as the awards have vested.

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

|                              | <b>Nine Months Ended September 30, 2020</b> |                      |
|------------------------------|---------------------------------------------|----------------------|
|                              | <b>Phantom Share Units</b>                  | <b>Average Price</b> |
| Balance, beginning of period | —                                           | \$—                  |
| Granted during the period    | <b>4,829,781</b>                            | <b>1.14</b>          |
| Balance, end of period       | <b>4,829,781</b>                            | <b>\$1.14</b>        |

The stock-based compensation expense recorded for the nine months ended September 30, 2020, was reduced by an estimated weighted average forfeiture rate of 3.175% per year at the date of grant.

Included in the stock-based compensation expense for the three and nine months ended September 30, 2020 is an expense of \$619 (2019 - \$nil) relating to the Company's PSU Plan. As at September 30, 2020, \$345 was included in accounts payable and accrued liabilities and \$274 was included in other long-term liabilities for outstanding PSUs.

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

CES' SRIP expired June 16, 2019 as the Company elected not to renew the plan. As such, no further Share Rights have been granted. CES' SRIP provided incentives to the employees, officers, and directors of the Company by issuing options to acquire common shares. Share Rights generally vest as to one-third on each of the first, second, and third anniversary dates of the grant, or such other vesting schedule as determined by the Board of Directors, and expire no later than five years after the date of the grant. Under the SRIP, employees may elect to exercise the Share Rights at an adjusted exercise price in which the option exercise price will be adjusted downwards by the cumulative dividends paid by the Company.

A summary of changes under the SRIP is presented below:

|                                         | <b>Nine Months Ended September 30, 2020</b> |                               | <b>Year Ended December 31, 2019</b> |                               |
|-----------------------------------------|---------------------------------------------|-------------------------------|-------------------------------------|-------------------------------|
|                                         | <b>Share Rights</b>                         | <b>Average Exercise Price</b> | <b>Share Rights</b>                 | <b>Average Exercise Price</b> |
| Balance, beginning of period            | <b>9,787,645</b>                            | <b>\$5.89</b>                 | 12,333,645                          | \$6.29                        |
| Expired during the period               | <b>(3,794,000)</b>                          | <b>6.93</b>                   | (1,179,000)                         | 10.09                         |
| Forfeited during the period             | <b>(461,000)</b>                            | <b>5.69</b>                   | (1,367,000)                         | 5.93                          |
| Balance, end of period                  | <b>5,532,645</b>                            | <b>\$5.19</b>                 | 9,787,645                           | \$5.89                        |
| Exercisable Share Rights, end of period | <b>5,527,645</b>                            | <b>\$5.19</b>                 | 8,856,645                           | \$5.88                        |

**CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

The following table summarizes information about the outstanding grants under the Company's SRIP as at September 30, 2020:

| Range of exercise prices | Share Rights Outstanding |                                 |                                          | Share Rights Exercisable |                                 |
|--------------------------|--------------------------|---------------------------------|------------------------------------------|--------------------------|---------------------------------|
|                          | Share Rights             | Weighted average exercise price | Weighted average term remaining in years | Share Rights             | Weighted average exercise price |
| \$3.10 - \$3.85          | 570,000                  | \$3.12                          | 0.48                                     | 570,000                  | \$3.12                          |
| \$3.86 - \$4.83          | 2,072,045                | 4.48                            | 0.97                                     | 2,072,045                | 4.48                            |
| \$4.84 - \$5.83          | 856,000                  | 5.60                            | 1.83                                     | 856,000                  | 5.60                            |
| \$5.84 - \$6.17          | 1,407,600                | 6.05                            | 1.71                                     | 1,407,600                | 6.05                            |
| \$6.18 - \$7.55          | 627,000                  | 6.95                            | 1.39                                     | 622,000                  | 6.95                            |
|                          | 5,532,645                | \$5.19                          | 1.29                                     | 5,527,645                | \$5.19                          |

**12. Dividends**

The Company declared dividends to holders of common shares for the nine months ended September 30, 2020, as follows:

|                          | Dividend Record Date | Dividend Payment Date | Per Common Share | Total |
|--------------------------|----------------------|-----------------------|------------------|-------|
| January                  | Jan 31               | Feb 15                | \$0.005          | 1,311 |
| February                 | Feb 28               | Mar 13                | \$0.005          | 1,309 |
| March                    | Mar 29               | Apr 15                | \$0.001          | 328   |
| Total dividends declared |                      |                       | \$0.011          | 2,948 |

On April 16, 2020, in light of the COVID-19 pandemic, declining commodity prices and uncertainty surrounding North American oil and gas demand, production, and storage levels, the Company announced that it suspended its monthly dividend.

**13. Commitments**

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

|                  |       |
|------------------|-------|
| Less than 1 year | 2,794 |
| 1-5 years        | 196   |
| 5+ years         | —     |
| Total            | 2,990 |

*Payments denominated in foreign currencies have been translated using the September 30, 2020 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.

**CES Energy Solutions Corp.**

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

**14. Supplemental Information**

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

|                                                                          | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--------------------------------------------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                                                          | 2020                             | 2019     | 2020                            | 2019     |
| (Increase) decrease in current assets                                    |                                  |          |                                 |          |
| Accounts receivable (includes income taxes receivable)                   | 17,613                           | (1,323)  | 123,612                         | 48,626   |
| Inventory                                                                | 6,781                            | (9,032)  | 18,757                          | 12,702   |
| Prepaid expenses and deposits                                            | (6,875)                          | (10,491) | 4,275                           | (12,126) |
| Increase (decrease) in current liabilities                               |                                  |          |                                 |          |
| Accounts payable and accrued liabilities (includes income taxes payable) | 16,221                           | 14,833   | (58,302)                        | 1,111    |
| Effects of movement in exchange rate                                     | (3,940)                          | 3,188    | 12,078                          | (8,683)  |
|                                                                          | 29,800                           | (2,825)  | 100,420                         | 41,630   |
| Relating to:                                                             |                                  |          |                                 |          |
| Operating activities                                                     | 29,958                           | (3,081)  | 101,506                         | 45,074   |
| Investing activities                                                     | (158)                            | 256      | (1,086)                         | (3,444)  |

For the three and nine months ended September 30, 2020 and 2019, 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.

**15. 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, |         |
|               | 2020                             | 2019    | 2020                            | 2019    |
| United States | 113,859                          | 227,282 | 463,636                         | 688,950 |
| Canada        | 52,434                           | 88,489  | 211,597                         | 272,746 |
|               | 166,293                          | 315,771 | 675,233                         | 961,696 |

|               | Long-Term Assets <sup>(1)</sup> |                   |
|---------------|---------------------------------|-------------------|
|               | September 30, 2020              | December 31, 2019 |
| United States | 322,191                         | 491,547           |
| Canada        | 134,795                         | 225,487           |
|               | 456,986                         | 717,034           |

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

**16. Related Parties**

During the three and nine months ended September 30, 2020, CES paid rent of \$nil and \$27, respectively (2019 - \$13 and \$42, respectively) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm’s length equivalent fair value.

# CES Energy Solutions Corp.

## Information

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### STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange  
Trading Symbol: CEU

### OTC

Trading Symbol: CESDF

### BOARD OF DIRECTORS

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

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

Spencer D. Armour III<sup>1,2,3</sup>

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

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

Thomas J. Simons

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

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

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

### OFFICERS

Thomas J. Simons  
President & Chief Executive Officer

Anthony M. Aulicino  
Chief Financial Officer

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

Richard Baxter  
President, US Drilling Fluids

Vernon J. Disney  
President, US Production Chemicals

James M. Pasieka  
Corporate Secretary

### AUDITORS

Deloitte LLP  
Chartered Professional Accountants, Calgary, AB

### BANKERS

Scotiabank Canada, Calgary, AB

### LEGAL COUNSEL

Stikeman Elliot, LLP, Calgary, AB  
Crowe & Dunlevy, Oklahoma City, OK

### REGISTRAR & TRANSFER AGENT

Computershare Investor Services Inc.  
Calgary, AB and Toronto, ON

### CORPORATE OFFICE

Suite 1400, 332 – 6<sup>th</sup> Avenue SW  
Calgary, AB T2P 0B2  
Phone: 403-269-2800  
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Fax: 403-266-5708

### US BUSINESS UNITS

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Fax: 281-589-7150

JACAM Chemical Company  
205 S. Broadway  
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Phone: 620-278-3355  
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Catalyst Oilfield Services  
11999 East Highway 158  
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