MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the years ended December 31, 2019 and 2018, and CES' 2019 Annual Information Form. Readers should also refer to the "Forward-looking Information & Statements" legal advisory and the section regarding "Non-GAAP Measures" and "Operational Definitions" at the end of this MD&A. This MD&A is dated March 12, 2020, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

USE OF NON-GAAP MEASURES

This MD&A contains certain financial measures that are not recognized by Canadian generally accepted accounting principles ("GAAP"), and which are used by management to evaluate the performance of CES and its business segments. Since certain non-GAAP financial measures do not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. Please refer to the section titled NON-GAAP MEASURES on page 19 for further information on the definition, calculation and reconciliation of the non-GAAP financial measures contained in this MD&A.

BUSINESS OF CES

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

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

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

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

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

CES considers capital to include shareholders' equity and long-term debt. The Company's objectives when managing capital are to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions; while maintaining creditor and shareholder confidence.

Regarding shareholders' equity, CES continues to see improvement in its financial position and the Company's Board of Directors and management believe that the market price of CES' common shares does not reflect adequate underlying value. Under the current normal course issuer bid ("NCIB"), effective July 17, 2019, the Company may repurchase for cancellation up to 18,649,192 common shares, being 7.5% of the public float of common shares on the effective date. Since inception of the Company's NCIB programs on July 17, 2018 and up to December 31, 2019, the Company has repurchased 10,601,603 common shares at an average price of $3.08 per share for a total amount $32.7 million, representing approximately 3.9% of outstanding common shares, as at the July 17, 2018 inception date. During Q4 2019, CES repurchased 1,964,600 shares at an average price of $2.01 per share for a total amount of $3.9 million. For the year ended December 31, 2019, CES repurchased 5,801,703 shares at an average price of $2.27 per share for a total amount of $13.1 million. Subsequent to December 31, 2019, the Company repurchased 2,325,277 additional shares at a weighted average price per share of $2.07 for a total of $4.8 million.

With respect to long-term debt, CES exited 2019 with Total Debt of $407.6 million, which represents a 17% reduction from Total Debt of $488.8 million, as at December 31, 2018. Excluding the impact of incremental lease obligations of $18.1 million, as at December 31, 2019 as a result of IFRS 16 adoption, Total Debt at December 31, 2019 would have decreased by $99.3 million or 20% to $389.5 million when compared to December 31, 2018.

During Q4 2019, CES declared dividends totaling $0.015 per share, consistent with Q4 2018, resulting in a Dividend Payout Ratio averaging 15% for Q4 2019 compared to 13% in Q4 2018. Year-to-date the Company's payout ratio averaged 13% compared to 10% in 2018. In response to recent developments in global oil and gas markets, on March 12, 2020, CES provided an update to its capital allocation strategy and reduced the Company's dividend to maintain its strong balance sheet while enhancing the Company's ability to opportunistically further reduce debt and repurchase shares. CES will pay a cash dividend of $0.00125 per common share payable on April 15, 2020 to the shareholders of record at the close of business on March 31, 2020. On an annualized basis, the new dividend would be $0.015 per common share representing a 75% decrease from the previous annualized level of $0.06 per common share. This new dividend level will allow CES to prudently redeploy approximately $12.0 million on an annualized basis.

Further discussion on the Company's long-term debt and dividend is included in the Liquidity and Capital Resources section of this document.

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

FINANCIAL HIGHLIGHTS

	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2019**	2018 (3)	%Change	**2019**	2018 (3)	%Change
Revenue						
United States	**217,427**	239,754	(9)%	**906,377**	847,841	7 %
Canada	**98,134**	108,151	(9)%	**370,880**	423,210	(12)%
Total Revenue	**315,561**	347,905	(9)%	**1,277,257**	1,271,051	0.5 %
Net income	**11,910**	15,467	(23)%	**30,106**	47,735	(37)%
per share – basic	***0.04***	*0.06*	(22)%	***0.11***	*0.18*	(36)%
per share - diluted	***0.04***	*0.06*	(23)%	***0.11***	*0.17*	(36)%
Adjusted EBITDAC (2)	**39,653**	42,074	(6)%	**167,127**	167,589	— %
Adjusted EBITDAC (2) % of Revenue	***12.6 %***	*12.1%*	0.5 %	***13.1 %***	*13.2%*	(0.1)%
Cash provided by operating activities	**41,455**	16,203	156 %	**187,304**	77,598	141 %
Funds Flow From Operations (2)	**31,553**	31,718	(1)%	**132,328**	132,731	(0.3)%
Capital expenditures						
Expansion Capital (2)	**9,098**	18,047	(50)%	**32,504**	71,414	(54)%
Maintenance Capital (2)	**5,718**	1,615	254 %	**12,745**	9,943	28 %
Total capital expenditures	**14,816**	19,939	(26)%	**45,249**	86,991	(48)%
Dividends declared	**3,970**	3,994	(1)%	**15,942**	12,707	25 %
per share	***0.0150***	*0.0150*	— %	***0.0600***	*0.0475*	26 %
Common Shares Outstanding						
End of year	**263,956,291**	265,886,609		**263,956,291**	265,886,609	
Weighted average - basic	**265,214,700**	266,932,999		**265,956,626**	268,004,817	
Weighted average - diluted	**271,779,891**	273,294,794		**272,604,972**	274,872,992	

	As at		
Financial Position ($000s)	**December 31, 2019**	December 31, 2018(3)	%Change
Total assets	**1,219,772**	1,321,809	(8)%
Long-term financial liabilities(1)	**385,865**	473,980	(19)%
Total Debt(2)	**407,631**	488,837	(17)%
Working Capital Surplus(2)	**369,628**	435,251	(15)%
Net Debt(2)	**38,003**	53,586	(29)%
Shareholders' equity	**679,310**	697,570	(3)%

[1] *Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and lease obligations.*
[2] *Refer to "Non-GAAP Measures" or "Operational Definitions" for further detail.*
[3] *IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. The adoption of IFRS 16 resulted in the addition of $19.9 million in lease obligations on January 1, 2019. Refer to "Significant Accounting Policies".*

Highlights for the three and twelve months ended December 31, 2019 in comparison to the three and twelve months ended December 31, 2018 for CES are as follows:

- CES generated $315.6 million in revenue and achieved Adjusted EBITDAC of $39.7 million for the three months ended December 31, 2019 ("Q4 2019") and record annual revenue of $1.28 billion and Adjusted EBITDAC of $167.1 million for the year ended December 31, 2019. Net income for three and twelve months ended December 31, 2019 was $11.9 million and $30.1 million, respectively, compared to $15.5 million and $47.7 million for the comparative 2018 periods. The financial results reported herein for the three and twelve months ended December 31, 2019 are reflective of continued improvements in CES' geographic positioning and strategic commitment to the US market which generated 71% of the Company's overall revenue in 2019, rationalization efforts to reflect a softened Canadian market, significant exposure to recurring production chemical end markets, realization of operating efficiencies, and capitalizing on the infrastructure buildout in both the US and Canada which was largely completed in 2018.

- CES' 2019 results demonstrate significant exposure to steady production chemical end markets, particularly in the US, allowing the Company to sell higher volumes of its products across a prudent cost structure and generate significant free cash flow through this recurring revenue stream. Concurrently, the drilling fluids business in the US was able to continue to generate significant free cash flow and grow market share in spite of a falling industry rig count in H2 2019. The Canadian oil and gas industry continued to face headwinds throughout 2019 with government mandated production curtailments and drilling activity that was significantly lower than comparable periods in 2018. Softer Canadian end markets were mitigated by improvements in operating efficiencies and rationalization through effectively combining leadership and management of Canadian production chemicals and drilling fluids operations.

- CES generated revenue of $315.6 million during Q4 2019, a decrease of $32.3 million or 9% compared to $347.9 million in revenue for Q4 2018. Revenue for the twelve months ended December 31, 2019 was $1.28 billion as compared to $1.27 billion for the twelve months ended December 31, 2018, representing a slight increase of 0.5% year-over-year.

    - Revenue generated in the US for the year ended December 31, 2019 was $906.4 million, representing 71% of the Company's overall revenue, and a 7% increase from 2018. The year-over-year increase in US revenues was underpinned by CES' completed investments in key US infrastructure and capabilities, significant drilling related activity improvement in H1 2019, an increase in US drilling fluids market share, and increased production chemical related US Treatment Points, particularly in the attractive Permian Basin and Rocky Mountain regions. During Q4 2019, industry rig counts fell sharply as operators reached their budget limits and remained highly disciplined on capital spending. Although the Company was able to grow drilling fluids market share in this difficult environment, revenue generated in the US for Q4 2019 decreased by 9% compared to Q4 2018, primarily driven by reduced drilling related activity levels.

    - Revenue generated in Canada decreased 9% and 12% to $98.1 million and $370.9 million for the three and twelve months ended December 31, 2019, respectively, over the 2018 comparative periods, primarily due to a decline in drilling activity and continued production curtailments throughout 2019 which was driven by market uncertainty around lack of current oil and gas takeaway capacity. As a result, Canadian oil and gas operators pared back capital spending and 2019 drilling activity declined, negatively impacting revenues in CES' Canadian drilling fluids business in Canada for 2019 compared to the same period in 2018. Despite these market conditions, Canadian drilling fluids was able to maintain market share in 2019 when compared to 2018.

- In 2019, CES demonstrated increased stability in free cash flow generation and Adjusted EBITDAC margins. Adjusted EBITDAC margin improved from 12.1% in Q4 2018 to 12.6% in Q4 2019. Despite some weakened industry conditions, stable Adjusted EBITDAC margin was realized at 13.1% for 2019 versus 13.2% in 2018. CES saw areas of margin improvement in the year as a result of continuation of improvements resulting from restructuring efforts within PureChem, rationalization of the Canadian drilling fluids business aligned with declines in industry activity and lower rent expense with IFRS 16 adoption on January 1, 2019. Partially offsetting these improvements, as US industry rig counts fell in H2 2019, CES preserved its US drilling fluids service and cost structure in anticipation of a potential pick-up in activity levels in 2020 and further market share growth which was realized in the first two months of 2020. The impact of recent developments in the global oil and gas industry remains to be seen, however, CES believes that its financial performance may continue to benefit from increased sales in areas such as the Permian and Deep Basin, realization of benefits from restructuring efforts, increased operating leverage from its expanded infrastructure, and from our innovative technologies and superior service culture.

- Net income for the three and twelve months ended December 31, 2019 was $11.9 million and $30.1 million, respectively, compared to $15.5 million and $47.7 million for the comparative 2018 periods. Net income decreased from Q4 2018 to Q4 2019 primarily due to the factors outlined above, along with an increase in depreciation and amortization expense on a higher depreciable asset base, offset by a reduction in stock based compensation expense and interest expense. On a year-to-date basis, net income declined primarily as a result of an increase in depreciation and amortization expense on a higher depreciable asset base and an increase in deferred income tax expense of $8.1 million. Further description of these items for the three and twelve months ended December 31, 2019 are found in the Results for the Period section of this MD&A.

- CES generated $41.5 million and $187.3 million in cash provided by operating activities during the three and twelve months ended December 31, 2019, respectively, both of which represented significant increases from the respective 2018 comparative periods. The improvement in cash provided by operating activities was primarily driven by working capital harvest in the respective periods. CES continues to maintain a prudent statement of financial position or "balance sheet" and continues to focus on working capital optimization. The Company had a Working Capital Surplus of $369.6 million, as at December 31, 2019 compared to $435.3 million, as at December 31, 2018. The reduction in Working Capital Surplus was driven by a combination of a reduction in drilling related activity levels and Company wide improvements in working capital conversion in the year.

- For the three and twelve months ended December 31, 2019, CES incurred $14.8 million and $45.2 million in capital expenditures, representing a 26% and 48% reduction from $19.9 million and $87.0 million for the three and twelve months ended December 31, 2018, respectively. Current quarter capital expenditures are primarily comprised of fleet additions and equipment to support the higher US production chemical activity levels, and associated headcount in the US. The Company has invested significantly in building out infrastructure in the US and Canada, and large expansionary projects such as PureChem's Grande Prairie facility for blending and storage of production chemicals and the Kermit mud plant expansion in the Permian Basin were largely completed in 2018.

- On November 28, 2019, the Company repurchased and canceled $9.0 million of its Senior Notes for an aggregate purchase price of $8.5 million resulting in a gain of $0.5 million and an annualized reduction of associated interest expense of $0.3 million. As at December 31, 2019, the Company had $291.0 million of outstanding principal on senior unsecured notes due October 21, 2024.

- At December 31, 2019, CES had a net draw of $76.7 million on its Senior Facility (December 31, 2018 - $161.5 million; September 30, 2019 - $75.3 million). The decrease in the net draw from December 31, 2018 was primarily driven by strong operational free cash flow generation in 2019 used to pay down the Senior Facility, offset by opportunistic repurchases of the Company's common shares under the NCIB and repurchases of Senior Notes. The maximum available draw on the Senior Facility at December 31, 2019 was $170.0 million on the Canadian facility and US$50.0 million on the US facility (December 31, 2018 - $180.0 million and US$40.0 million, respectively). As at the date of this MD&A, the Company had a net draw of approximately $95.0 million on its Senior Facility compared to $76.7 million at December 31, 2019 which is primarily driven by increased levels of drilling activity and associated working capital required to service market share growth, particularly in CES' US drilling fluids business, in 2020 to date.

- On January 1, 2019, the Company adopted IFRS 16 "Leases" using the modified retrospective approach and, therefore, comparative information has not been restated. The adoption of IFRS 16 resulted in the addition of $19.9 million in right of use ("ROU") assets and corresponding lease obligations on January 1, 2019. For the three and twelve months ended December 31, 2019, the impact of IFRS 16 on Adjusted EBITDAC was an increase of $1.8 million and $6.4 million, respectively, whereas the impact on net income was a decrease of $0.1 million and $0.6 million for the three and twelve months ended December 31, 2019 as the reduction in cost of sales and general and administrative expenses was offset by higher depreciation expense and finance costs. Further details are included in the "Significant Accounting Policies" section at the end of this MD&A.

OUTLOOK

With recent developments in the global oil and gas industry, CES remains cautious with its 2020 outlook. Given the sharp decline in commodity prices, CES expects weakened upstream activity across North America and downward pressure on margins. CES believes it will benefit from its counter cyclical leverage model and its ability to maintain a prudent cost structure in this low oil price environment. With infrastructure buildout largely complete, the business is well positioned to weather further declines in drilling and production related activity. CES continues to believe that over time it can further grow its share of the oilfield consumable chemical markets in which it competes. CES also sees the consumable chemical market increasing its share of the oilfield spend as operators continue to: drill longer reach laterals and drill them faster; expand and optimize the utilization of pad drilling; increase the intensity and size of their fracs; and require increasingly technical and specialized chemical treatments to effectively maintain existing cash flow generating wells and treat growing production volumes and water cuts from new wells.

In the US, CES' infrastructure is largely built out to meet anticipated growing production chemical and drilling fluid needs in the key basins. In the Permian Basin, the Kermit, Texas mud plant expansion has been designed to double capacity over 2017 levels, and has enabled the Company to take on new work and continue to grow market share, as was evidenced by market share growth experienced in Q4 2019 despite falling US rig counts. In addition, Catalyst's current platform, which has more than tripled in size since 2016, is setup to capitalize on growing production and higher levels of activity in the Permian Basin, which despite recent developments in commodity prices, could be more pronounced in 2020 as several pipeline projects are on track to add significant offtake capacity. Further, CES continues to recruit top talent in this highly competitive region.

In Canada, market conditions continue to face headwinds due to current takeaway capacity constraints and lack of consistent market access, which caused wide price differentials and relatively low natural gas prices, and government mandated production curtailments. As a result and further emphasized by the recent share decline in commodity prices, Canadian oil and gas continue to remain cautious on their capital programs in 2020. We continue to assess related changes to operator's activity levels and potential impacts on our business. CES believes its Canadian business is well positioned to weather the current market challenges through its scalable Canadian drilling fluids business model and through improved financial contribution from its PureChem production chemical division as it realizes ongoing structural efficiency gains and grows into its infrastructure.

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

Despite the current industry challenges, CES' balance sheet is well positioned to capitalize on stable production chemical end markets, while its counter cyclical leverage model allows the Company to remain resilient in the face of potential uncertainty over drilling related industry activity levels in Canada and the US. In August 2019, CES successfully amended and extended its Senior Facility, which has an extended maturity into September 2022. In October 2017, CES successfully re-financed and reduced its coupon on its previously outstanding $300.0 million Senior Notes by issuing new 6.375% Senior Notes which have an extended maturity into October 2024. In 2020, it is expected that EBITDAC will materially exceed the sum of cash expenditures on interest, taxes, and capital expenditures, allowing for free cash flow to be used to pay down draws on the Company's Senior Facility, and be returned to shareholders through CES' monthly dividend and NCIB.

Although CES previously expected 2020 capital expenditures to be at or below 2019 levels, in light of recent developments in the global oil and gas markets, the Company is reviewing planned expenditures and will adjust as required as conditions continue to unfold. CES' business model, capital structure and free cash flow generation attributes continue to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions.

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

RESULTS FOR THE PERIODS

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2019**	2018 [(1)]	%Change	**2019**	2018 [(1)]	%Change
Revenue						
United States	**217,427**	239,754	(9)%	**906,377**	847,841	7 %
Canada	**98,134**	108,151	(9)%	**370,880**	423,210	(12)%
Total Revenue	**315,561**	347,905	(9)%	**1,277,257**	1,271,051	0.5 %
Cost of sales	**249,428**	278,203	(10)%	**1,003,880**	986,788	2 %
Gross margin	**66,133**	69,702	(5)%	**273,377**	284,263	(4)%
General and administrative expenses	**48,262**	51,163	(6)%	**203,290**	210,926	(4)%
Finance costs	**6,632**	8,161	(19)%	**27,999**	26,359	6 %
Other (income) loss	**(4)**	(4,767)	(100)%	**138**	(4,665)	(103)%
Income before taxes	**11,243**	15,145	(26)%	**41,950**	51,643	(19)%
Current income tax expense	**1,526**	1,109	38 %	**3,784**	3,829	(1)%
Deferred income tax (recovery) expense	**(2,193)**	(1,431)	53 %	**8,060**	79	10,103 %
Net income	**11,910**	15,467	(23)%	**30,106**	47,735	(37)%

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

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

	Revenue					
	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2019**	2018	% Change	**2019**	2018	% Change
United States	**217,427**	239,754	(9)%	**906,377**	847,841	7 %
Canada	**98,134**	108,151	(9)%	**370,880**	423,210	(12)%
	315,561	347,905	(9)%	**1,277,257**	1,271,051	0.5 %

	Key Operating Metrics					
	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	% Change	**2019**	2018	% Change
US	**30,793**	29,229	5 %	**30,299**	28,846	5 %
Canada	**8,076**	8,535	(5)%	**7,976**	8,011	(0.4)%
Total Treatment Points [1]	**38,869**	37,764	3 %	**38,275**	36,857	4 %
US	**9,691**	10,874	(11)%	**43,197**	42,815	1 %
Canada	**5,145**	6,087	(15)%	**18,760**	25,571	(27)%
Total Operating Days [1]	**14,836**	16,961	(13)%	**61,957**	68,386	(9)%
US	**105**	118	(11)%	**118**	117	1 %
Canada	**56**	66	(15)%	**52**	70	(26)%
Total Average Rig Count[1]	**161**	184	(13)%	**170**	187	(9)%
US industry rig count[2]	**796**	1,011	(21)%	**920**	1,004	(8)%
Canadian industry rig count[3]	**156**	185	(16)%	**144**	196	(26)%
US DF Market Share	**13%**	12%	1 %	**13%**	12%	1 %
Canadian DF Market Share	**36%**	36%	— %	**36%**	36%	— %

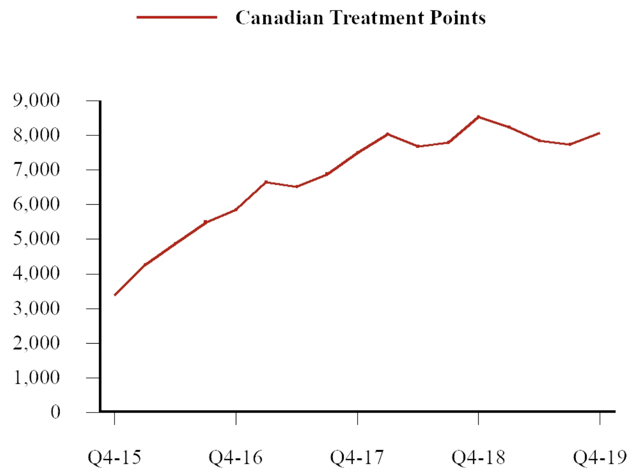
[1]*Refer to "Operational Definitions" for further detail.*
[2] *Based on the monthly average of Baker Hughes published weekly land data for the United States in the referenced period.*
[3] *Based on the monthly average of CAODC published weekly data for Western Canada in the referenced period.*

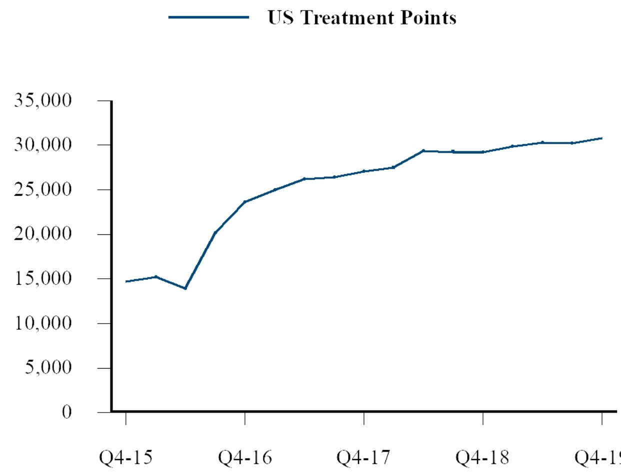
With infrastructure buildout largely complete in 2018, CES' US business was well positioned to capitalize on stable production chemical end markets and grow its drilling fluids market share. As a result, CES generated 69% and 71% of its overall revenue in the US for the three and twelve months ended December 31, 2019, respectively. US Treatment Points increased by 5% for both the three and twelve months ended December 31, 2019, over the comparative 2018 periods, with increases being primarily in the Permian Basin region. In the drilling fluids business, although Average Rig Counts in the US were up in H1 2019 when compared to the respective 2018 period, industry activity fell meaningfully in H2 2019 and as a result CES' US average Rig Count was 11% lower in Q4 2019 than Q4 2018. However, CES was able to not only maintain but grow market share in several regions, including in the Permian Basin with the buildout of its Kermit, TX, mud plant in 2018 and H1 2019, partially offsetting the decline in drilling related revenue.

Persistent industry challenges in Canada resulted in a decline in CES' Canadian revenue for both the three and twelve months ended December 31, 2019 compared to the respective periods in 2018. These challenges resulted in significant declines in industry rig counts year-over-year, negatively impacting the Company's drilling fluids business in Canada as Operating Days fell by 15% and 27% for the three and twelve month respective periods. CES' production chemical business in Canada experienced slight declines in Treatment Points yet was able to grow market share, in a difficult environment with government mandated production curtailments and severe weather conditions which hindered certain deliveries throughout the course of the year. In 2019, CES was able to maintain its Canadian drilling fluids market share at 36%, despite the industry activity declines. Furthermore, CES expects to maintain its leading drilling fluids market share but future Canadian DF Market Share will be dependent on our customers' risk appetite and future spending levels.

US Treatment Points and Canadian Treatment Points, excluding the seasonality effect in Canada and the impact of severe weather in 2019 as noted above, have trended upwards as the Company continues to gain market share in the production and specialty chemical end markets. Since Q4 2015, US Treatment Points have increased by 239% and Canadian Treatment Points have increased by 209%. Although absolute Treatment Points are a guiding indicator of activity levels for the production chemical business, these individual treated wells increasingly exhibit higher volumes of produced oil, natural gas, and associated water, which correspondingly requires higher volumes of production chemicals. These favourable characteristics are associated with increased measured depths and higher production volume attributes of many modern wells.

Quarterly Treatment Points





Included in revenue generated in Canada for the three and twelve months ended December 31, 2019 is $1.6 million and $7.3 million, respectively (2018 - $3.1 million and $10.8 million, respectively), of revenue generated by Clear, the Company's Environmental Services segment. Clear's business has evolved from being primarily levered to drilling activity to a vertically integrated environmental service provider. Clear provides environmental consulting, water management and water transfer services, as well as drilling fluids waste disposal services. With a variety of services, revenue can fluctuate with exposure to large scale and short duration jobs. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

For the three and twelve months ended December 31, 2019 and 2018, CES' top customers accounted for the following percentage of total revenue:

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
Top five customers as a % of total revenue	**29%**	26%	**29%**	25%
Top customer as a % of total revenue	**13%**	10%	**13%**	11%

Cost of Sales and Gross Margin

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

Gross Margin and Gross Margin (excluding depreciation) for the three and twelve months ended December 31, 2019 and 2018 are as follows:

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2019**	2018[(1)]	Change	**2019**	2018[(1)]	Change
Gross Margin	**66,133**	69,702	(3,569)	**273,377**	284,263	(10,886)
as a percentage of revenue	**21%**	20%	1%	**21%**	22%	(1)%
Add back (deduct):						
Depreciation included in cost of sales	**12,703**	11,576	1,127	**51,864**	41,285	10,578
Gross Margin (excluding depreciation)	**78,836**	81,278	(2,442)	**325,241**	325,548	(307)
as a percentage of revenue	**25%**	23%	2%	**25%**	25%	— %

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

Throughout 2018 and 2019, cost inflation on significant inputs outpaced the combination of CES' operating leverage gains and the Company's ability to pass cost increases through to customers. Furthermore, as US industry rig counts fell in H2 2019, and there was uncertainty surrounding 2020 US upstream activity, CES preserved its US drilling fluids service and cost structure in anticipation of potential improvements in industry activity in 2020 and continued market share gains, which were realized in the first two months of 2020. These declines were offset by the continuation of margin improvement resulting from restructuring efforts within PureChem, rationalization of the Canadian drilling fluids business aligned with declines in industry activity and lower rent expense with IFRS 16 adoption on January 1, 2019. The impact of recent developments in the global oil and gas industry remains to be seen, however, CES believes that as it increases sales in areas such as the Permian and the Deep Basin and continues to focus on tactically improving cost structure, CES will realize improved operating leverage from its expanded infrastructure, and its innovative technologies and superior service culture should improve margins going forward.

General and Administrative Expenses ("G&A")

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

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2019**	2018[(1)]	Change	**2019**	2018[(1)]	Change
General and administrative expenses	**48,262**	51,163	(2,901)	**203,290**	210,926	(7,636)
as a percentage of revenue	**15%**	15%	1%	**16%**	17%	(1)%
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	**3,369**	5,304	(1,935)	**17,626**	27,262	(9,636)
Depreciation & amortization	**5,710**	5,928	(218)	**24,587**	22,528	2,059
Executive severance and management transition	—	360	(360)	**2,963**	2,810	153
Restructuring costs	—	66	(66)	—	66	(66)
Adjusted General and Administrative Costs	**39,183**	39,505	(322)	**158,114**	158,261	(147)
as a percentage of revenue	**12%**	11%	1%	**12%**	12%	— %

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

Throughout 2019, CES took actions to rationalize its Canadian G&A cost base in light of softened market conditions, including reductions in head count, compensation levels and discretionary spending. Furthermore, CES' overall G&A benefited from lower rent expense as a result of the adoption of IFRS 16 on January 1, 2019. Partially offsetting these improvements, CES' US business, particularly on the production chemical side, continued to grow thereby increasing head counts and compensation levels. Further, as noted above, despite declines in US rig counts in Q4 2019, CES US drilling fluids business maintained existing head count and cost structure in anticipation of future activity levels and market share. As a percentage of revenue, G&A has increased slightly or remained consistent for the three and twelve months ended December 31, 2019, as compared with the same periods in 2018. As activity levels increase, it is expected that G&A expenses will rise as the Company adds head count to address the needs of its growing business and as the Company experiences some cost inflation. Conversely, if activity levels decrease, CES will diligently manage its G&A cost base in light of market conditions.

Depreciation & Amortization Included in Cost of Sales and G&A
Depreciation and amortization increased in the three and twelve months ended December 31, 2019 , in comparison to 2018, as a result of a higher depreciable asset base as the Company invested significantly in the buildout of its infrastructure in 2018 and further, the adoption of IFRS 16 resulted in an increase in depreciable right of use assets by $19.9 million on January 1, 2019.

Stock-Based Compensation
Stock-based compensation expense decreased in the three and twelve months ended December 31, 2019, in comparison to the same periods in 2018, as a result of the timing of equity grants, the reduced price of the Company's common shares year-over-year, and the reduction of number of Officers from six to five.

Finance Costs
For the three and twelve months ended December 31, 2019 and 2018, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2019**	2018[(1)]	**2019**	2018[(1)]
Interest on debt, net of interest income	**6,650**	7,430	**27,288**	26,100
Amortization of debt issue costs and premium	**311**	327	**1,319**	1,275
Foreign exchange loss (gain)	**152**	444	**(180)**	396
Financial derivative loss (gain)	**17**	(76)	**34**	(1,485)
Gain on repurchase of senior unsecured notes	**(498)**	—	**(498)**	—
Other finance costs	**—**	37	**36**	73
Finance costs	**6,632**	8,162	**27,999**	26,359

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

Interest expense
Finance costs for the three and twelve months ended December 31, 2019 include interest on debt, net of interest income, of $6.7 million and $27.3 million, respectively (2018 - $7.4 million and $26.1 million, respectively). Although CES' Senior Facility draw has come down significantly in Q4 2019, for the first six months of 2019 CES carried a higher average net draw balance on its Senior Facility when compared to H1 2018, thereby resulting in higher interest costs for the year-to-date period. Further, interest costs increased by $0.2 million and $1.0 million for the three and twelve months ended December 31, 2019, respectively, as a result of the adoption of IFRS 16. On November 28, 2019, the Company repurchased and canceled $9.0 million of its Senior Notes for an aggregate purchase price of $8.5 million resulting in a gain of $0.5 million and an annualized reduction of associated interest expense of $0.3 million. As at December 31, 2019, the Company had $291.0 million of outstanding principal on senior unsecured notes due October 21, 2024. Cash based interest expense relating to the Company's Senior Notes for the three and twelve months ended December 31, 2019 was $4.7 million and $19.1 million, respectively, which is slightly lower than in 2018. Further details are outlined in the Liquidity and Capital Resources section of this MD&A.

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2019 include a realized and unrealized net foreign exchange loss of $0.2 million and gain of $0.2 million, respectively (2018 - net loss of $0.4 million and $0.4 million, respectively). The net foreign exchange gain during twelve months ended December 31, 2019 is primarily related to foreign exchange gains on the Company's USD denominated cash and net draw balances held in Canada.

Derivative gains and losses
Finance costs for the three and twelve months ended December 31, 2019 included a realized and unrealized net derivative loss totaling $0.02 million and $0.03 million, respectively (2018 - net gain of $0.08 million and $1.5 million, respectively) relating to the Company's foreign currency derivative contracts. As of December 31, 2019, the Company had a financial derivative liability of net $0.08 million relating to its outstanding derivative contracts (December 31, 2018 - net asset of $0.3 million). CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies.

At December 31, 2019, the Company had entered into the following foreign exchange USD forward purchase and option contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian operations:

Period	Notional Balance USD$000s	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3101
February 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3100
March 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3101
April 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2991
May 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2991
June 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2992
July 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2992
August 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2993
September 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2993
Total	US12,000			$1.3046

Current and Deferred Income Taxes
Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three and twelve months ended December 31, 2019 and 2018, income tax expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2019**	2018	**2019**	2018
Current income tax expense	**1,526**	1,109	**3,784**	3,829
Deferred income tax (recovery) expense	**(2,193)**	(1,431)	**8,060**	79
Total income tax (recovery) expense	**(666)**	(322)	**11,844**	3,908

The current income tax expense decreased slightly year-over-year due to decreased activity levels in the US and in Canada. The year-over-year increase in deferred income tax expense is primarily due to the significant recognition of US tax losses in 2018 which remained in 2019 and a combination of changes in the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes compared to the amounts used for taxation purposes. During the second quarter of 2019, the Alberta government enacted legislation, which reduces the Alberta corporate tax rate from 12% to 8% over the period July 1, 2019 through January 1, 2022.

Working Capital Surplus and Net Debt
CES continues to maintain a prudent balance sheet and focus on working capital optimization. The Company had a Working Capital Surplus of $369.6 million, as at December 31, 2019 compared to $435.3 million, as at December 31, 2018. In H2 2019, CES invested in several longer-term barite deliveries in advance of port closures in Corpus Christi throughout the winter. Despite these increased investment levels, overall Working Capital Surplus declined as Canadian industry activity levels were down year-over-year, US rig related activity levels declined in Q4 2019, and the Company continued to improve upon its working capital conversion. CES' Total Debt continues to be primarily reflective of working capital investments, and as such, December 31, 2019, the Company had Net Debt of $38.0 million as compared to $53.6 million at December 31, 2018. Refer to the "Non-GAAP Measures" for further details on the calculation of Net Debt.

Total Long-Term Assets
Year-over-year, total long-term assets of CES decreased by $36.8 million to $720.0 million, as at December 31, 2019 down from $756.8 million, as at December 31, 2018. This decrease in long-term assets is partially attributed to the decrease in the deferred income tax asset, as discussed above, and the Company's USD denominated long-term assets which were negatively impacted by the depreciation of the USD versus the CAD on December 31, 2019, compared to December 31, 2018, offset by an increase in right of use assets of $19.9 million as a result of the adoption of IFRS 16 on January 1, 2019.

Long-Term Financial Liabilities
CES had long-term debt totaling $362.8 million, as at December 31, 2019, compared to $455.6 million at December 31, 2018, a decrease of $92.8 million. The decrease was primarily driven by strong free cash flow generation throughout 2019 being used to pay down the Senior Facility, as capital expenditures have declined significantly year over year and investment in working capital has also come down through optimization efforts. Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

Related Party Transactions
Included in G&A expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2019, remuneration of $12.8 million included $6.0 million of salaries and cash-based compensation and $6.8 million of stock-based compensation costs (December 31, 2018 – $8.2 million and $3.2 million, respectively). During the year ended December 31, 2019, the Company recorded general and administrative expenses of $3.0 in respect of one-time executive-related severance costs. During the year ended December 31, 2018, the Company recorded general and administrative expenses of $2,660 and stock-based compensation expense of $693 in respect of one-time CFO-related transition costs.

During the year ended December 31, 2019, CES paid rent of $0.06 (2018 - $0.1 million) to an executive officer of the Company for use of a temporary rental property. During the twelve months ended December 31, 2018, CES bought property and equipment with an approximate fair value $0.3 million from a former executive officer of the Company, and from companies controlled by the respective former executive officer, for a purchase price of $0.3 million. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue								
United States	**217,427**	227,282	236,776	224,892	239,754	227,100	201,525	179,462
Canada	**98,134**	88,489	76,161	108,096	108,151	111,411	82,792	120,856
Revenue	**315,561**	315,771	312,937	332,988	347,905	338,511	284,317	300,318
Net income	**11,910**	7,637	8,361	2,198	15,467	5,859	13,159	13,250
per share– basic	***0.04***	*0.03*	*0.03*	*0.01*	*0.06*	*0.02*	*0.05*	*0.05*
per share– diluted	***0.04***	*0.03*	*0.03*	*0.01*	*0.06*	*0.02*	*0.05*	*0.05*
Adjusted EBITDAC [1]	**39,653**	42,233	41,528	43,713	42,074	45,550	37,477	42,489
per share– basic	***0.15***	*0.16*	*0.16*	*0.16*	*0.16*	*0.17*	*0.14*	*0.15*
per share– diluted	***0.15***	*0.15*	*0.15*	*0.16*	*0.15*	*0.17*	*0.14*	*0.15*
Dividends declared	**3,970**	3,984	3,993	3,995	3,994	4,012	2,691	2,010
per share	***0.0150***	*0.0150*	*0.0150*	*0.0150*	*0.0150*	*0.0150*	*0.0100*	*0.0075*
Shares Outstanding								
End of period	**263,956,291**	265,647,874	265,738,759	266,968,576	265,886,609	267,791,315	269,391,188	268,424,065
Weighted average – basic	**265,214,700**	265,762,689	266,719,773	266,141,659	266,932,999	268,119,617	268,800,776	268,178,300
Weighted average – diluted	**271,779,891**	272,971,478	273,085,762	272,078,943	273,294,794	275,502,020	276,608,303	274,569,434

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

Seasonality of Operations

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

SELECTED ANNUAL INFORMATION

The following is a summary of selected annual financial information of the Company for the last three completed years :

	Year Ended December 31,				
($000s, except per share amounts)	**2019**	% Change	2018[3]	% Change	2017[3]
Revenue					
United States	**906,377**	7 %	847,841	30%	651,983
Canada	**370,880**	(12)%	423,210	12%	377,657
Total revenue	**1,277,257**	0.5 %	1,271,051	23%	1,029,640
Income before taxes	**41,950**	(19)%	51,643	98%	26,052
per share - basic	**0.16**	(18)%	0.19	90%	0.10
per share - diluted	**0.15**	(18)%	0.19	90%	0.10
Net income	**30,106**	(37)%	47,735	32%	36,241
per share - basic	**0.11**	(36)%	0.18	29%	0.14
per share - diluted	**0.11**	(36)%	0.17	31%	0.13
Adjusted EBITDAC [1]	**167,127**	(0.3)%	167,589	9%	154,049
per share - basic	**0.63**	— %	0.63	9%	0.58
per share - diluted	**0.61**	— %	0.61	9%	0.56
Dividends declared	**15,942**	25 %	12,707	59%	7,982
per share	**0.0600**	26 %	0.0475	58%	0.0300

	As at December 31,				
Financial position ($000s)	**2019**	% Change	2018[3]	% Change	2017[3]
Total assets	**1,219,772**	(8)%	1,321,809	16 %	1,140,667
Long-term financial liabilities[1]	**385,865**	(19)%	473,980	14 %	414,384
Total Debt	**407,631**	(17)%	488,837	16 %	422,797
Working Capital Surplus[2]	**369,628**	(15)%	435,251	21 %	358,888
Net debt[2]	**38,003**	(29)%	53,586	(16)%	63,909
Shareholders' equity	**679,310**	(3)%	697,570	18 %	593,198

[1]Refer to "Non-CAAP Measures" for further detail.
[2]Includes long-term portion of the deferred acquisition consideration, the Senior Facility, and finance lease obligations.
[3]IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. The adoption of IFRS 16 resulted in the addition of $19.9 million in lease obligations on January 1, 2019. Refer to "Significant Accounting Policies".

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**December 31, 2019**	December 31, 2018
Senior Facility	**77,341**	162,036
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**290,954**	300,000
	368,295	462,036
Less: net unamortized debt issue costs	**(5,510)**	(6,445)
Long-term debt	**362,785**	455,591

Senior Facility

On August 22, 2019, the Company completed an amendment and two year extension of its existing syndicated senior facility (the "Senior Facility"). All of the amendments took effect August 22, 2019 and will remain in effect until maturity on September 28, 2022, subject to certain terms and conditions, and the Senior Facility may be extended by one year upon agreement of the lenders and the Company. The principal amendments to the Senior Facility include an increase to the US facility from US$40.0 million to US$50.0 million, a reduction in the Canadian facility from $180.0 million to $170.0 million, the ability for the Company to use proceeds under the Senior Facility to repurchase or redeem a portion of the Company's outstanding senior unsecured notes subject to minimum liquidity requirements, and improved pricing on amounts drawn. Other terms and conditions from the amendment remain consistent with those of the previous senior facility. Although the total size of the Senior Facility remains relatively unchanged, the increase in the US facility addresses the needs of the Company's growing US business relative to the Canadian business.

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

As at December 31, 2019, the maximum available draw on the Senior Facility was $170.0 million on the Canadian facility and US$50.0 million on the US facility. As at December 31, 2019, the Company had a net draw of $76.7 million on the Senior Facility (December 31, 2018 - $161.5 million), with capitalized transaction costs of $0.6 million (December 31, 2018 - $0.5 million). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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

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

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

- Net Senior Debt is defined as Total Net Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA.

Total Net Debt is defined as all obligations, liabilities, and indebtedness excluding future income tax liabilities and deferred tax credits, office leases, other leases characterized as an operating lease, and accrued interest not yet due and payable. Total Net Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

	As at	
$000s	**December 31, 2019**	December 31, 2018
Net Senior Debt	**107,812**	197,221
EBITDA for the four quarters ended	**159,980**	166,012
Ratio	**0.674**	1.188
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**159,980**	166,012
Interest Expense for the four quarters ended	**26,226**	26,033
Ratio	**6.100**	6.377
Minimum	**2.500**	2.500

Senior Notes

On November 28, 2019, the Company repurchased and canceled $9.0 million of its Senior Notes for an aggregate purchase price of $8.5 million resulting in a gain of $0.5 million. At December 31, 2019, the Company had $291.0 million of 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 on the Senior Notes semi-annually on April 21st and October 21st. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2020. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at December 31, 2019, the Company was in compliance with the terms and covenants of its lending agreements.

Leases

The Company incurs lease payments under a number of lease arrangements which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company's leases are for terms ranging from February 2020 through February 2030 with interest rates of up to 7.37% and a weighted average interest rate of 5.37%. At December 31, 2019, outstanding lease obligations totalled $44.8 million as compared to $33.1 million at December 31, 2018, representing a total increase of $11.7 million. The increase in lease obligations is primarily due to the adoption of IFRS 16, which resulted in additional lease obligations of $19.9 million, as at January 1, 2019, offset by principal payments made during the year ended December 31, 2019. During the three and twelve months ended December 31, 2019, the Company made long-term scheduled debt and lease repayments totalling $5.3 million and $21.7 million, respectively, on its leases.

Future minimum lease payments outstanding under the Company's lease obligations as at December 31, 2019 are as follows:

$000s	
Less than 1 year	**22,800**
1-5 years	**23,616**
5+ years	**2,109**
Total lease payments	**48,525**
Amount representing implicit interest	**(3,679)**
Lease obligations	**44,846**

Other Indebtedness

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2019:

	Payments Due By Period[1]					
$000s	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	127,071	—	—	—	—	**127,071**
Dividends payable [2]	1,320	—	—	—	—	**1,320**
Income taxes payable	—	1,573	—	—	—	**1,573**
Deferred acquisition consideration	150	—	—	—	—	**150**
Senior Notes [3]	—	—	—	290,954	—	**290,954**
Interest on Senior Notes	—	18,548	18,548	55,645	—	**92,741**
Lease obligations[4]	3,521	18,245	14,329	6,966	1,785	**44,846**
Commitments [5]	1,072	1,692	51	24	—	**2,839**
	133,134	40,058	32,928	353,589	1,785	**561,495**

[1]Payments denominated in foreign currencies have been translated using the December 31, 2019 exchange rate.
[2] Dividends declared as of December 31, 2019.
[3] The Senior Notes are due on October 21, 2024.
[4] Lease obligations reflect principal payments and excludes any associated interest portion.
[5]Commitments include amounts relating to short-term leases, leases of low-value assets, variable payments associated with long-term leases, and capital commitments.

CES continues to maintain a prudent balance sheet with a Working Capital Surplus of $369.6 million, as at December 31, 2019 (December 31, 2018 - $435.3 million). At December 31, 2019, the Company had Net Debt of $38.0 million, a decrease from $53.6 million, as at December 31, 2018. Total Debt has decreased in 2019 as a result of decreased borrowings on the Senior Facility with reduced working capital levels and capital expenditures, offset by the adoption of IFRS 16 and opportunistic repurchases of the Company's common shares under the NCIB.

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

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

Summary of Statements of Cash Flows

The following table summarizes the Company's Statements of Cash Flows for the three and twelve months ended December 31, 2019 and 2018:

	Three Months Ended December 31,			Year Ended December 31,		
$000's	**2019**	2018	Change	**2019**	2018	Change
Net cash provided by (used in)						
Operating Activities	**41,455**	16,203	25,252	**187,304**	77,598	109,706
Investing Activities	**(21,271)**	(11,504)	(9,767)	**(43,361)**	(85,585)	42,224
Financing Activities	**(20,184)**	(4,700)	(15,484)	**(143,943)**	7,986	(151,929)

Cash Flows from Operating Activities
For the three months ended December 31, 2019, cash flow from operating activities was an inflow of $41.5 million, compared to $16.2 million during the three months ended December 31, 2019, with the increase being primarily driven by reduced levels of working capital build in Q4 2019 compared to Q4 2018, slightly offset by decreased net income. Further, the adoption of IFRS 16 results in increased Cash Flows from Operating Activities in Q4 2019 given payments associated with the additional lease obligation of $19.9 million, as at January 1, 2019, which previously were expensed through cost of sales or G&A, are now considered financing cash outflows.

Cash Flows from Investing Activities
For Q4 2019, net cash outflows from investing activities totaled $21.3 million, as compared to the outflow of $11.5 million from investing activities during Q4 2018. In Q4 2019, total investment in property and equipment was $14.8 million versus $19.9 million in Q4 2018. Offsetting this reduction in capital expenditures was insurance proceeds received in Q4 2018 on outstanding property claims and investments in other assets in Q4 2019 related to the Company's captive insurance company. CES continued to be very disciplined on capital expenditures in 2019. As infrastructure buildout was largely complete in 2018, CES has reduced expansion and maintenance capital expenditures by 44% for twelve months ended December 31, 2019 as compared to the same period for 2018.

Historically, CES has presented Expansion Capital and Maintenance Capital in the following table including property and equipment financed through leasing arrangements. Upon adoption of IFRS 16, the Company elected to reclassify its assets under finance lease from property and equipment to right of use assets and accordingly, present capital expenditures in the table below excluding these leased amounts. Management views this presentation as a more accurate representation of the cash used for Expansion Capital and Maintenance Capital. For comparison, the prior period is restated to reflect this change. As such, excluded from the table below, in Q4 2019 CES entered into new lease arrangements for $0.9 million expansion right of use assets and $2.2 million maintenance right of use assets (Q4 2018 - $4.7 million expansion and $3.9 million maintenance). Details of cash used for investment in property and equipment are as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2019**	2018	**2019**	2018
Expansion Capital [1]	**9,098**	18,047	**32,504**	71,414
Maintenance Capital [1]	**5,718**	1,615	**12,745**	9,943
Other capital expenditures [2]	**—**	277	**—**	5,634
Total investment in property and equipment	**14,816**	19,939	**45,249**	86,991
Insurance proceeds on replacement property and equipment	**—**	(6,470)	**—**	(6,470)
Change in non-cash investing working capital	**(190)**	(1,243)	**3,254**	(3,930)
Cash used for investment in property and equipment	**14,626**	12,226	**48,503**	76,591

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

For Q4 2019, $14.6 million of cash was used for investment in property and equipment compared to $12.2 million for the three months ended December 31, 2018. Notable Expansion Capital expenditures in Q4 2019 include: US$4.3 million of buildings, processing equipment and field equipment to support higher production chemical and drilling fluid activity levels and associated headcount in the US. Notable Maintenance Capital additions during Q4 2019 include: $5.2 million for vehicles, trucks and transportation equipment, $0.2 million in processing equipment and field equipment, and $0.3 million for other maintenance additions.

Historically, the long-term capital investments required for CES to execute its business plan are not significant in relation to the total revenue and EBITDAC generated by the Company and the majority of capital expenditures are made at the discretion of CES based on the timing and the expected overall return on the investment. Although CES previously expected 2020 capital expenditures to be at or below 2019 levels, in light of recent developments in the global oil and gas markets, the Company is reviewing planned expenditures and will adjust as required as conditions continue to unfold.

Cash Flows from Financing Activities
For Q4 2019, cash flows from financing activities was an outflow of $20.2 million compared to $4.7 million in Q4 2018. This year-over-year change is primarily due to the increased free cash flow generated and used to pay down the Senior Facility in the current quarter, the repurchase of Senior Notes for a cash outflow of $8.5 million, offset by a reduction in the repurchase and cancellation of common shares through the NCIB as compared Q4 2018. Cash outflows from financing activities are further impacted by the additional repayments of

finance leases as a result of the adoption of IFRS 16 and associated increase in lease obligations of $19.9 million as at January 1, 2019. CES calculated Distributable Earnings based on Cash provided by operating activities, and the Dividend Payout Ratio based on the level of dividends declared as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2019**	2018	**2019**	2018
Cash provided by operating activities	**41,455**	16,203	**187,304**	77,598
Adjust for:				
Change in non-cash operating working capital	**(9,902)**	15,515	**(54,976)**	55,133
Less: Maintenance Capital (2)	**(5,718)**	(1,615)	**(12,745)**	(9,943)
Distributable Earnings (1)	**25,835**	30,103	**119,583**	122,788
Dividends declared	**3,970**	3,994	**15,942**	12,707
Dividend Payout Ratio (1)	**15%**	13%	**13%**	10%

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

Dividend Policy

The Company declared dividends to holders of common shares for the year ended December 31, 2019, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.005	**1,330**
February	Feb 28	Mar 15	$0.005	**1,330**
March	Mar 29	Apr 15	$0.005	**1,335**
April	Apr 30	May 15	$0.005	**1,332**
May	May 31	Jun 14	$0.005	**1,332**
June	Jun 28	Jul 15	$0.005	**1,329**
July	Jul 31	Aug 15	$0.005	**1,328**
August	Aug 30	Sept 13	$0.005	**1,328**
September	Sep 30	Oct 15	$0.005	**1,328**
October	Oct 31	Nov 15	$0.005	**1,326**
November	Nov 29	Dec 13	$0.005	**1,324**
December	Dec 31	Jan 15	$0.005	**1,320**
Total dividends declared during the year			$0.060	**15,942**

Subsequent to December 31, 2019, the Company declared dividends to holders of common shares in the amount of $0.005 per common share paid on February 14, 2020 and March 13, 2020, for shareholders of record on January 31, 2020 and February 28, 2020.

In response to recent developments in global oil and gas markets, on March 12, 2020, CES provided an update to its capital allocation strategy and reduced the Company's dividend to maintain its strong balance sheet while enhancing the Company's ability to opportunistically further reduce debt and repurchase shares. CES will pay a cash dividend of $0.00125 per common share payable on April 15, 2020 to the shareholders of record at the close of business on March 31, 2020. On an annualized basis, the new dividend would be $0.015 per common share representing a 75% decrease from the previous annualized level of $0.06 per common share. This new dividend level will allow CES to prudently redeploy approximately $12.0 million on an annualized basis.

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

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

Share Capital and Stock-Based Compensation Plans
A summary of the Company's common shares and stock-based compensation plans outstanding is as follows:

	March 12, 2020	December 31, 2019	December 31, 2018
Common shares outstanding	261,781,786	263,956,291	265,886,609
Restricted Share Unit Plan ("RSU")	6,270,925	6,411,540	6,267,482
Share Rights Incentive Plan ("SRIP")	9,658,455	9,787,645	12,333,645

NCIB
On July 11, 2019, the Company announced the renewal of its previous NCIB which ended on July 16, 2019. Under the renewed NCIB, effective July 17, 2019, the Company may repurchase for cancellation up to 18,649,192 common shares, being 7.5% of the public float of common shares at the time of renewal. The renewed NCIB will terminate on July 16, 2020 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. As at December 31, 2019, CES has repurchased 2,703,600 shares of the amount available for repurchase under the current NCIB, representing 14% of the 18,649,192 available for repurchase. A summary of the Company's NCIB program for the three and twelve months ended December 31, 2019 is as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s except for share and per share amounts	**2019**	2018	**2019**	2018
Number of shares	**1,964,600**	2,099,900	**5,801,703**	4,799,900
Cash outlay	**3,943**	7,182	**13,146**	19,532
Average price per share	**$ 2.01**	$ 3.42	**$ 2.27**	$ 4.07

NON-GAAP MEASURES

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

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

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

EBITDAC and Adjusted EBITDAC are calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2019**	2018 [1]	**2019**	2018 [1]
Net income	**11,910**	15,467	**30,106**	47,735
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**12,703**	11,576	**51,864**	41,285
Depreciation on property and equipment in G&A	**2,202**	1,419	**8,481**	5,247
Amortization on intangible assets in G&A	**3,508**	4,509	**16,106**	17,281
Current income tax expense	**1,526**	1,109	**3,784**	3,829
Deferred income tax (recovery) expense	**(2,193)**	(1,431)	**8,060**	79
Stock-based compensation	**3,369**	5,304	**17,626**	27,262
Finance costs	**6,632**	8,161	**27,999**	26,359
Other (income) loss	**(4)**	(4,767)	**138**	(4,665)
EBITDAC	**39,653**	41,347	**164,164**	164,412
Add back (deduct):				
Executive severance and management transition	—	360	**2,963**	2,810
Restructuring costs	—	367	—	367
Adjusted EBITDAC	**39,653**	42,074	**167,127**	167,589

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

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

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

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

Gross Margin (excluding depreciation) is calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2019**	2018 [(1)]	**2019**	2018 [(1)]
Gross Margin	**66,133**	69,702	**273,377**	284,263
as a percentage of revenue	**21%**	20%	**21%**	22%
Add back (deduct):				
Depreciation included in cost of sales	**12,703**	11,576	**51,864**	41,285
Gross Margin (excluding depreciation)	**78,836**	81,278	**325,241**	325,548
as a percentage of revenue	**25%**	23%	**25%**	25%

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

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2019**	2018[(1)]	**2019**	2018[(1)]
General and administrative expenses	**48,262**	51,163	**203,290**	210,926
as a percentage of revenue	**15%**	15%	**16%**	17%
Deduct non-cash charges and non-recurring items:				
Stock-based compensation	**3,369**	5,304	**17,626**	27,262
Depreciation & amortization	**5,710**	5,928	**24,587**	22,528
Executive severance and management transition	**—**	360	**2,963**	2,810
Restructuring costs	**—**	66	**—**	66
Adjusted General and Administrative Costs	**39,183**	39,505	**158,114**	158,261
as a percentage of revenue	**12%**	11%	**12%**	12%

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

Funds Flow From Operations - is defined as cash flow from operations before changes in non-cash operating working capital and represents the Company's after tax operating cash flows. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income, or other measures of financial performance calculated in accordance with IFRS. Funds Flow From Operations is used by management to assess operating performance and leverage. Funds Flow From Operation is calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2019**	2018	**2019**	2018
Cash provided by (used in) operating activities	**41,455**	16,203	**187,304**	77,598
Adjust for:				
Change in non-cash operating working capital	**(9,902)**	15,515	**(54,976)**	55,133
Funds Flow From Operations	**31,553**	31,718	**132,328**	132,731

Working Capital Surplus - Working Capital Surplus is calculated as current assets less current liabilities, excluding the current portion of finance lease obligations. Management believes that this metric is a key measure to assess operating performance and leverage of the Company and uses it to monitor its capital structure.

Net Debt and Total Debt - Net Debt represents Total Debt, which includes the non-current portion of deferred acquisition consideration, the Senior Facility, the Senior Notes, and both current and non-current portions of lease obligations, less Working Capital Surplus. Management believes that these metrics are key measures to assess liquidity of the Company and use them to monitor its capital structure.

Working Capital Surplus and Net Debt are calculated as follows:

	As at	
$000's	**December 31, 2019**	December 31, 2018[3]
Long-term financial liabilities[1]	**385,865**	473,980
Current portion of finance lease obligations	**21,766**	14,857
Total Debt	**407,631**	488,837
Deduct Working Capital Surplus:		
Current assets	**499,820**	564,991
Current liabilities[2]	**(130,192)**	(129,740)
Working Capital Surplus	**369,628**	435,251
Net Debt	**38,003**	53,586

[1]Includes long-term portion of the deferred acquisition consideration, the Senior Facility, the Senior Notes, and lease obligations.
[2]Excludes current portion of lease liabilities
[3]IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated. Refer to "Significant Accounting Policies".

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, and the possible disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the period. Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made.

The preparation of the consolidated financial statements requires management to make estimates and assumptions 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. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made relate to, but are not limited to, the following:

Significant judgments

Determining CGUs

For the purpose of assessing impairment of non-financial assets, the Company must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU and the respective allocation of shared corporate carrying values is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Company are the Canadian Operations and the US Operations.

Leases

In determining the term of a lease, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Significant estimates

Accounts receivable

The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts, taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates. The Company uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed at each reporting date for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Property and equipment

Management estimates the useful lives and residual value of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at each reporting date or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. The recoverability of the Company's asset carrying values is assessed at the CGU level. The determination of the CGUs is subject to management judgments taking into consideration: the nature of the underlying business operations, geographical proximity of operations, shared infrastructure, and exposure to market risk.

The assessment of any impairment of property and equipment, intangible assets and goodwill is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated using future cash flow projections, discounted to their present value, expected to arise from the CGU to which the goodwill relates. The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. These estimates include, but are not limited to, expected levels of activity within the oil and natural gas industry, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. The estimated future cash flows are dependent upon a number of factors including, among others, future activity levels within the oil and natural gas industry, current economic and market conditions, and potential changes in government regulations. Future activity cannot be predicted with certainty and, as such, actual results may differ from these estimates. Changes to these estimates, including continued downward pressure on the global energy markets, may affect the recoverable amounts of the Company's CGUs which may then require a material adjustment to their related carrying values.

Purchase price allocations
The assets acquired and liabilities assumed are recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets, including goodwill, property and equipment, other assets, and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates, and market conditions at the date of acquisition.

Derivatives
The fair value of outstanding derivatives is based on forward foreign exchange rates as at the reporting date and may differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in net income. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of Share Rights granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the share right, expected volatility, actual and expected life of the Share Rights, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the Share Rights is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of Share Rights and Restricted Share Units that will be forfeited and the rate is adjusted to reflect the actual number of share rights and restricted share units that vest. Consequently, the actual stock-based compensation expense associated with the Company's share-based compensation plans may vary from the amount estimated.

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases used in the computation of taxable income, measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realized based on the enacted or substantively enacted future income tax rates in effect at the end of the reporting period. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact net income.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, provincial and state jurisdictions in Canada, the United States, and Luxembourg. Corporate income tax and other returns are filed, and current income tax provisions are recorded, based upon the transactions entered into and recorded by the Company and are based on the estimates and calculations used by the Company during the normal course of business and in the preparation of these returns. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit which could result in adjustments and potential litigation by the tax authorities, which in turn could affect the Company's tax provisions in future years. As applicable, the Company maintains provisions for uncertain tax positions that it believes are appropriate. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors at the reporting period. The Company reviews the adequacy of these provisions at the end of each reporting period and adjusts them as required. However, it is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. These differences could materially impact net income.

Other Provisions & Contingencies
The determination of other provisions and contingent liabilities is a complex process that involves judgments about the outcomes of future events, estimates of timing and amount of future expenditures, the interpretation of laws and regulations, and discount rates. The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set out in Note 2 of the consolidated financial statements for the year ended December 31, 2019. With the exception of IFRS 16 referred to below, there have been no new standards or interpretations issued during 2019 that significantly impact the Company.

Adoption of IFRS 16 "Leases"
On January 1, 2019, CES adopted IFRS 16 which replaced IAS 17 "Leases" and related interpretations, using the modified retrospective method which does not require restatement of prior period financial information. Accordingly, comparative information in the Company's financial statements is not restated. On adoption of IFRS 16, CES has elected to record right of use ("ROU") assets equal to the corresponding lease liability. Lease liabilities were measured at the present value of the remaining lease payments outstanding from commitments disclosed as at December 31, 2018, excluding short-term leases, leases of low-value assets, and variable payments associated with long-term leases, and discounted using the Company's incremental borrowing rate as of January 1, 2019 which ranges from 4.4% to 6.5%. The adoption of IFRS 16 resulted in the initial recognition of ROU assets and lease obligations of $19.9 million.

Further, the adoption of IFRS 16 resulted in the following financial impacts in Q4 2019 and 2019 year-to-date:

- an aggregate reduction in cost of sales and G&A by $1.8 million and $6.4 million, respectively, and a corresponding increase to EBITDAC of $1.8 million and $6.4 million, respectively;
- increase in depreciation & amortization by $1.7 million and $6.1 million, respectively;
- increase in interest expense by $0.2 million and $1.0 million, respectively; and
- increase in cash provided by (used in) operating activities and corresponding reduction to cash provided by (used in) financing activities by $1.6 million and $5.5 million, respectively.

On transition to IFRS 16, the Company elected to use the following practical expedients, as permitted under the standard:

- Grandfather the assessment of which transactions are leases and applied IFRS 16 only to contracts that were previously identified as leases under IAS 17;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of low-value (less than US$0.005 million);
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Account for lease components and non-lease components as a single lease component.

CORPORATE GOVERNANCE

Disclosure Controls and Procedures ("DC&P")
DC&P have been designed to provide reasonable assurance that information required to be reported by CES is gathered, recorded, processed, summarized and reported to senior management, including the President and Chief Executive Officer and Chief Financial Officer of CES, to allow timely decisions regarding required public disclosure by CES in its annual filings, interim filings, or other reports filed or submitted in accordance with Canadian securities legislation.

As at December 31, 2019, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' disclosure controls and procedures, as detailed by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2019, the disclosure controls and procedures were effective.

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

Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer and based on criteria set out in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, conducted an evaluation of the design and effectiveness of CES' ICFR as at December 31, 2019. Based on their assessment, Management determined that ICFR were effective as at December 31, 2019.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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

For information regarding the corporate governance policies and practices of CES, the reader should refer to CES' 2019 Annual Report, CES' Annual Information Form dated March 12, 2020 in respect of the year ended December 31, 2019, and CES' Information Circular in respect of the June 10, 2019 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at www.sedar.com.

RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS

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

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

From mid-2014 to early 2016, oil and natural gas prices fell dramatically, resulting in a significant decrease in the level of industry activity in the WCSB and the US. While oil and natural gas prices improved from the first quarter of 2016 into 2019, recent developments in global oil and gas markets, specifically as it relates to production level decisions amongst OPEC+ members and the potential impact to demand resulting from COVID-19, have collectively resulted in a sharp decline in commodity prices in the beginning of 2020. A continued and prolonged retracement of oil and natural gas prices to levels seen in early 2016 or lower, would likely affect oil and natural gas production levels and therefore reduce the demand for drilling and oilfield services by operators which could have a material adverse effect on CES' business, financial condition, results of operations and cash flows. In addition, in Canada many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI and government mandated production curtailments have suppressed production levels and drilling activity in Alberta. Furthermore, there is ongoing uncertainty around the ability for WCSB producers to reach markets given the status of several proposed pipeline projects, the potential for a change to US trade policies, tax reform, and potential changes to the crude by rail industry in the face of several derailments. A continued decline in both the Canadian and US markets could result in adverse changes to the accounting estimates and judgements made with respect to the Company's assessment of goodwill impairment on its Canadian and US CGU's.

The volatility in the financial markets has impacted the general availability of both credit and equity financing in the marketplace. World-wide political and economic risks seem to be intensifying and, although, the US continues to see strong economic growth, there are added risks and uncertainties around the impact of new policies proposed or implemented by the Trump administration, including, but not limited to, the renegotiation of international trade agreements and the implementation of the Canada-United States-Mexico Agreement; the potential changes to US trade policies as it relates to US trade with China; and tax reform. Despite CES' successful re-financing of its $300.0 million Senior Notes in October 2017, in general since the fall of 2014, and further emphasized by recent developments in global oil and gas markets, there has been a retreat in the energy capital markets as a result of low commodity prices and perception regarding government policy and regulations. As such it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit without significant costs. CES is also reliant on its Senior Facility to fund working capital and other growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. At December 31, 2019, CES is in compliance with terms and covenants of all of its lending agreements.

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

The ability of CES to sell and expand its services will also depend upon the ability to attract and retain qualified personnel as needed. As the industry recovered from the trough activity levels of 2016, the demand for skilled employees has been increasing and the supply of top quality, experienced talent has been limited. The unexpected loss of CES' key personnel, the inability to retain or recruit skilled personnel, or potential disruptions to our employees' ability to perform their duties as a result of unforeseen events such as natural disasters or impacts from global pandemics like COVID-19, could have an adverse effect on CES' results. CES addresses these risks by:

- attracting well trained and experienced professionals;
- offering competitive compensation at all levels;
- providing a variety of tools and technologies to enable employees to work remotely;
- ensuring a safe working environment with clearly defined standards and procedures; and
- offering its employees both internal and external training programs.

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

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

Government regulations respecting greenhouse gas emissions and carbon pricing have or may be implemented in the jurisdictions in which CES operates. Recently, the Alberta Government has implemented and repealed a carbon levy and at the federal level, the Canadian government has implemented its carbon-pricing scheme, effective January 1, 2020. As an oilfield service company, CES is not a large-scale emitter of greenhouse gases and does not anticipate the impact of these regulations to be material to its operations. However, the carbon levy may have a material impact on oil and gas producers, which could result in a material adverse effect on demand for CES' products and services. In addition, the potential for future changes in these and other jurisdictions for additional royalties, levies and other taxes, and other climate change related taxes is an on-going risk for the oilfield services sector.

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

The Company's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in North America and increasingly from overseas. The Company believes alternate suppliers exist for all required raw materials. The availability and supply of materials has been consistent in the past; however in periods of high activity, periodic shortages of certain materials have been experienced and costs may be affected. In addition, disruptions to transportation networks, impacts from pandemics, or other disruptions to global supply chains may impact the Company's ability to deliver products and services to its customers. These disruptions, such as those seen generally as a result of the spread of Coronavirus (COVID-19), may also impact global demand for oil and gas, which may in turn result in a reduction in drilling activity and production economics globally. CES continues to evaluate potential changes to customer activity levels and the potential impacts to our business.

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

Reference should be made to CES' Annual Information Form dated March 12, 2020 for the year ended December 31, 2019, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES which is available on CES' SEDAR profile at www.sedar.com.

FORWARD-LOOKING INFORMATION & STATEMENTS

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

In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business and the ability of CES to manage seasonal activity swings; the certainty and predictability of future cash flows and earnings; management's proposed corporate strategy for the Company; ability of CES to manage overall fluctuations in demand for CES' products and services; the expectation that cash interest costs, maintenance capital and dividends will be fully funded from EBITDAC or any other source; future estimates as to dividend levels; the potential means of funding dividends and the NCIB; the intention to make future dividend payments; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the new dividend level and the ability to retain such cash to preserve the balance sheet and provide liquidity to fund future growth initiatives; the sufficiency of liquidity and capital resources to meet long-term payment obligations or other commitments not included as liabilities on its statement of financial position; potential M&A opportunities; the long-term capital investments required for CES to execute on its business plan; the amount of CES' non-acquisition related capital expenditures in 2020, including maintenance capital and discretionary expansion capital and the anticipated timing for spending such capital; the repurchase of CES' common shares pursuant to the NCIB; the expected timing and cost for completion of expansions at the JACAM, Catalyst, and AES facilities; expectations regarding increased headcount and cost inflation related to General and Administrative Costs; management's opinion of the impact of any potential litigation or disputes; the application of critical accounting estimates and judgements; the timing of adoption of new accounting standards and the potential impact of new accounting standards on CES' financial statements; the collectability of accounts receivable; the effectiveness of CES' credit risk mitigation strategies; CES' ability to increase or maintain its market share; expectations regarding the number of Treatment Points in Canada; CES' ability to leverage third party partner relationships to drive innovation in the consumable fluids and chemicals business; supply and demand for CES' products and services, including expectations for growth in CES' production and specialty chemical sales, expected growth in the consumable chemicals market, and the impact of such increased sales on operating leverage and cost structure; impact of new drilling techniques, longer reach laterals and the increased intensity and size of hydraulic fracturing; expectations that CES will rationalize its drilling fluids cost structure; industry activity levels including divergence in activity levels between Canada and the US; commodity prices and related pricing pressure; any forward curves for commodity prices; treatment under governmental regulatory and taxation regimes; expectations regarding the impact of US tax reform; expectations regarding the impact of production curtailment policies in Alberta; expectations regarding the impact of governmental carbon pricing schemes; expectations regarding expansion of services in Canada and the US; development of new technologies; expectations regarding CES' growth opportunities in Canada and the US; the effect of acquisitions on the Company; expectations regarding the performance or expansion of CES' operations; expectations relating to operating efficiencies and rationalization as a result of management changes; expectations regarding end markets for production chemicals and drilling fluids in Canada and the US;expectations regarding the diversification of operations away from the drill-bit; expectations regarding demand for CES' services and technology; investments in research and development and technology advancements; access to debt and capital markets and cost of capital; CES' ability to continue to comply with covenants in debt facilities; expectations regarding the impact of the refinancing of CES' Senior Notes; and competitive conditions.

CES' actual results could differ materially from those anticipated in the forward-looking information as a result of the following factors: general economic conditions in the US, Canada, and internationally; geopolitical risk; fluctuations in demand for consumable fluids and chemical oilfield services, and any downturn in oilfield activity; a decline in activity in the Permian, the WCSB, and other basins in which the Company operates; a decline in frac related chemical sales; a decline in operator usage of chemicals on wells; an increase in the number of customer well shut-ins; a shift in types of wells drilled; volatility in market prices for oil, natural gas, and natural gas liquids and the effect of this volatility on the demand for oilfield services generally; the declines in prices for natural gas, natural gas liquids, and oil, and pricing differentials between world pricing, pricing in North America, and pricing in Canada; competition, and pricing pressures from customers in the current commodity environment; currency risk as a result of fluctuations in value of the US dollar; liabilities and risks, including environmental liabilities and risks inherent in oil and natural gas operations; sourcing, pricing and availability of raw materials, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel; the collectability of accounts receivable, particularly in the current low oil and natural gas price environment; ability to integrate technological advances and match advances of competitors; ability to protect the Company's proprietary technologies; availability of capital; uncertainties in weather and temperature affecting the duration of the oilfield service periods and the activities that can be completed; the ability to successfully integrate and achieve synergies from the Company's acquisitions; changes in legislation and the regulatory environment, including uncertainties with respect to oil and gas royalty regimes, programs to reduce greenhouse gas and other emissions and regulations restricting the use of hydraulic fracturing; pipeline capacity and other transportation infrastructure constraints; changes to government mandated production curtailments; reassessment and audit risk and other tax filing matters; changes and proposed changes to US policies including the potential for tax reform, possible renegotiation of international trade agreements and the implementation of the Canada-United States-Mexico Agreement; international and domestic trade disputes, including restrictions on the transportation of oil and natural gas and regulations governing the sale and export of oil, natural gas and refined petroleum products; divergence in climate change policies between the US and Canada; potential changes to the crude by rail industry; changes to the fiscal regimes applicable to entities operating in the US and WCSB; access to capital and the liquidity of debt markets; fluctuations in foreign exchange and interest rates; CES' ability to maintain adequate insurance at rates it considers reasonable and commercially justifiable; and the other factors considered under "Risk Factors" in CES' Annual Information Form for the year ended December 31, 2019 and "Risks and Uncertainties" in this MD&A.

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

MARKET AND INDUSTRY DATA

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

ADDITIONAL INFORMATION

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

Audited Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

MANAGEMENT’S REPORT

Management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial and management information.

Independent auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of three independent, non-management directors, is responsible to review the consolidated financial statements with management and the auditors and to report to the Board of Directors. The Board of Directors is responsible to review and approve the consolidated financial statements.

“Thomas J. Simons”
Thomas J. Simons
President & Chief Executive Officer
March 12, 2020

“Anthony M. Aulicino”
Anthony M. Aulicino
Chief Financial Officer
March 12, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of CES Energy Solutions Corp.

Opinion
We have audited the consolidated financial statements of CES Energy Solutions Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the consolidated statements of net income and comprehensive (loss) income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

March 12, 2020

CES Energy Solutions Corp.
Consolidated Statement of Financial Position
(stated in thousands of Canadian dollars)

	As at	
	December 31, 2019	December 31, 2018
ASSETS		
Current assets		
Accounts receivable (note 21)	**257,480**	311,222
Financial derivative asset (note 21)	**—**	270
Income taxes receivable (note 16)	**88**	1,561
Inventory (note 5)	**220,472**	238,503
Prepaid expenses and deposits	**21,780**	13,435
	499,820	564,991
Property and equipment (note 6)	**301,874**	360,963
Right of use assets (note 7)	**52,739**	—
Intangible assets (note 8)	**61,410**	77,143
Deferred income tax asset (note 16)	**2,918**	14,352
Other assets (note 9)	**12,054**	4,860
Goodwill (note 8)	**288,957**	299,500
	1,219,772	1,321,809
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**127,071**	125,149
Financial derivative liability (note 21)	**78**	—
Dividends payable (note 19)	**1,320**	1,329
Income taxes payable (note 16)	**1,573**	2,892
Current portion of deferred acquisition consideration (note 4)	**150**	370
Current portion of lease obligations (note 11)	**21,766**	14,857
	151,958	144,597
Deferred acquisition consideration (note 4)	**—**	150
Long-term debt (note 10)	**362,785**	455,591
Lease obligations (note 11)	**23,080**	18,239
Deferred income tax liability (note 16)	**2,639**	5,662
	540,462	624,239
Commitments (note 20)		
Shareholders' equity		
Common shares (note 17)	**660,174**	651,116
Contributed surplus	**42,686**	47,204
Deficit	**(165,829)**	(179,993)
Accumulated other comprehensive income	**142,279**	179,243
	679,310	697,570
	1,219,772	1,321,809

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"	"Philip J. Scherman"
Thomas J. Simons	Philip J. Scherman
President & Chief Executive Officer and Director	Director & Chairman, Audit Committee

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

CES Energy Solutions Corp.

Consolidated Statements of Net Income and Comprehensive (Loss) Income

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

	Year Ended December 31,	
	2019	2018
Revenue	**1,277,257**	1,271,051
Cost of sales (note 12)	**1,003,880**	986,788
Gross margin	**273,377**	284,263
General and administrative expenses (note 13)	**203,290**	210,926
Operating profit	**70,087**	73,337
Finance costs (note 14)	**27,999**	26,359
Other loss (income) (note 15)	**138**	(4,665)
Income before taxes	**41,950**	51,643
Current income tax expense (note 16)	**3,784**	3,829
Deferred income tax expense (note 16)	**8,060**	79
Net income	**30,106**	47,735
Other comprehensive income (items that may be subsequently reclassified to profit and loss):		
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(37,353)**	60,148
Change in fair value of other assets, net of tax	**389**	46
Comprehensive (loss) income	**(6,858)**	107,929
Net income per share (note 17)		
Basic	**0.11**	0.18
Diluted	**0.11**	0.17

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

CES Energy Solutions Corp.
Consolidated Statements of Changes in Equity
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2019	2018
COMMON SHARES		
Balance, beginning of year	**651,116**	655,028
Issued pursuant to stock-based compensation (note 18)	**22,144**	15,562
Issued pursuant to stock settled director fee	**60**	58
Common shares repurchased and canceled through NCIB (note 17)	**(13,146)**	(19,532)
Balance, end of year	**660,174**	651,116
CONTRIBUTED SURPLUS		
Balance, beginning of year	**47,204**	34,142
Reclassified pursuant to stock-based compensation (note 17)	**(22,144)**	(14,200)
Stock-based compensation expense (note 18)	**17,626**	27,262
Balance, end of year	**42,686**	47,204
DEFICIT		
Balance, beginning of year	**(179,993)**	(215,021)
Net income	**30,106**	47,735
Dividends declared (note 19)	**(15,942)**	(12,707)
Balance, end of year	**(165,829)**	(179,993)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**179,243**	119,049
Unrealized foreign exchange (loss) gain on translation of foreign operations	**(37,353)**	60,148
Change in fair value of other assets, net of tax	**389**	46
Balance, end of year	**142,279**	179,243
	679,310	697,570

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

CES Energy Solutions Corp.
Consolidated Statements of Cash Flows
(stated in thousands of Canadian dollars)

	Year Ended December 31,	
	2019	2018
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income	**30,106**	47,735
Adjustments for:		
Depreciation and amortization	**76,450**	63,813
Stock-based compensation (note 18)	**17,626**	27,262
Other loss (gain)	**2,498**	(4,756)
Deferred income tax expense (note 16)	**8,060**	79
Gain on disposal of assets	**(1,914)**	(1,402)
Gain on repurchase of senior unsecured notes	**(498)**	—
Change in non-cash working capital (note 23)	**54,976**	(55,133)
	187,304	77,598
FINANCING ACTIVITIES:		
Repurchase of senior unsecured notes (note 10)	**(8,548)**	—
Repayment of lease obligations	**(21,668)**	(11,417)
(Decrease) increase in Senior Facility	**(84,630)**	49,623
Shareholder dividends	**(15,951)**	(12,050)
Issuance of shares, net of issuance costs	**—**	1,362
Common shares repurchased and cancelled through NCIB (note 17)	**(13,146)**	(19,532)
	(143,943)	7,986
INVESTING ACTIVITIES:		
Investment in property and equipment, net of insurance proceeds (note 15)	**(48,503)**	(76,591)
Investment in intangible assets	**(2,469)**	(8,597)
Investment in other assets (note 9)	**(7,549)**	2,628
Deferred acquisition consideration (note 4)	**(370)**	(4,550)
Business combinations	**—**	(5,315)
Proceeds on disposal of assets	**15,530**	6,840
	(43,361)	(85,585)
CHANGE IN CASH	**—**	—
Cash, beginning of year	**—**	—
Cash, end of year	**—**	—
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**27,383**	26,109
Income taxes paid	**3,556**	1,470

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

1. The Company

CES Energy Solutions Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 332 – 6th Avenue SW, Calgary, Alberta, Canada T2P 0B2. The consolidated financial statements of the Company as at and for the years ended December 31, 2019 and 2018 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company" or "CES").

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

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 12, 2020.

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention except as disclosed in Note 3.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the statement of financial position date. Gains and losses on translation of monetary items are recognized in the statement of net income and comprehensive (loss) income in finance costs, except for those foreign exchange gains or losses arising from assets and liabilities of a foreign operation, which are recognized in other comprehensive income ("OCI").

Assets and liabilities of subsidiaries having a functional currency different from the Company's presentation currency of Canadian dollars are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in OCI.

3. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

b) Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on an average cost basis, and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any inventory valuation write-downs are included in cost of sales on the statement of net income and comprehensive (loss) income.

c) Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within cost of sales on the statement of net income and comprehensive (loss) income.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The costs of the day-to-day servicing of property and equipment, including repairs and maintenance, are recognized in net income as incurred. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

During the year, the Company amended its classification of property and equipment as follows:

Historical Property and Equipment Classes	Amended Property and Equipment Classes	Useful Lives
Buildings & leasehold improvements Land	Land & buildings	0-30 years
Trucks & trailers Vehicles Aircraft	Vehicles, trucks, and transportation equipment	3-25 years
Processing equipment Field equipment Tanks	Machinery and equipment	5-20 years
Office & computer equipment	Office & computer equipment	3-10 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively if appropriate. The Company reviews its property and equipment at each reporting date to determine whether there is any indication of impairment.

d) Leases and ROU Assets
The Company recognizes a right of use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The ROU asset is subsequently depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the Company's assessment of whether it will exercise a purchase, extension or termination option.

Leases that have a term of less than 12 months or leases with an underlying asset of low-value are recognized as an expense in the consolidated statement of net income and comprehensive (loss) income.

e) Identifiable intangible assets

The Company's intangible assets include customer relationships, proprietary software, and patents and other intangibles with finite useful lives. Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are initially recorded at cost and are amortized using the straight-line method through net income over their estimated useful lives when the realization of economic benefits begins. The estimated useful lives are as follows:

Customer relationships	5-10 years
Software	3 years
Patents and other intangibles	3-20 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively, if appropriate.

f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed based on their fair values as of the acquisition date. Goodwill acquired through a business combination is allocated to each cash generating unit ("CGU"), or group of CGUs, that is expected to benefit from the business combination. Each of these CGUs represents the lowest level within the Company at which the associated goodwill is monitored for management purposes.

g) Impairment

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.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The Company's corporate assets do not generate separate cash inflows and cash outflows are allocated to CGUs. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss related to goodwill is not reversed.

h) Provisions

Provisions are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value as applicable. As well, the Company performs reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

i) Revenue recognition

The Company's revenue is comprised of the sale of products and the provision of services. Revenue on the sale of products is recognized as the Company satisfies the performance obligations with its customers over time as they consume products. 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. Revenue on the provision of services is recognized as the services are performed, when the price is fixed and determinable, and collection is reasonably assured. The Company's contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation

The Company uses the fair value method to account for Share Rights granted to employees, officers, and directors of the Company for grants under the Company's Share Rights Incentive Plan. Compensation expense for Share Rights granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant. Restricted Share Units are awarded to employees, officers and directors of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense for Restricted Share Units is based on the estimated fair value of the award at the date of grant, calculated using a five day volume weighted average share price. Compensation expense associated with share-based compensation plans is recognized in net income over the vesting period of the respective plans with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for its share-based compensation plans at the date of grant based on the number of awards expected to vest taking into consideration past experience and future expectations and are adjusted upon actual vesting.

k) Finance costs

Finance costs are comprised of interest expense on borrowings, net of interest income, gains resulting from the repurchase and cancellation of senior unsecured notes, financial derivative gains and losses, foreign currency gains and losses resulting from foreign currency monetary items which are translated into the Company's functional currency, and the amortization of capitalized debt issue costs.

l) Borrowing costs

Borrowing costs attributable to the acquisition, construction, or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized as finance costs in the statement of net income and comprehensive (loss) income, using the effective interest method, in the period in which they are incurred.

m) Income taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and Luxembourg based on the taxable income or loss including the transactions entered into and recorded by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. Current income tax and deferred income tax are recognized in net income, except to the extent that it relates to a business combination or items recognized directly in equity or in OCI. Where current income tax or deferred income tax arises from the initial accounting of a business combination, the tax effect is included in the accounting for the business combination, and where it arises on items recognized directly in equity or OCI the tax effect is also recognized in equity and OCI, respectively.

Current income tax expense is the expected tax payable or receivable on the taxable income or loss for the year based upon the transactions entered into and recorded by the Company and based on the estimates and calculations used during the normal course of business. Current income tax expense is recorded using tax rates enacted or substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years.

Deferred income tax expense and recoveries are recognized in respect of unused tax losses and tax credits as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates which are expected to apply to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax liability is generally recognized for all taxable temporary differences. Deferred income tax liabilities are not recognized on the following:

- taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future;
- temporary differences that arise from goodwill which is not deductible for tax purposes; and
- the initial recognition of an asset or liability in a transaction which is not a business combination.

A deferred income tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Future income tax inflows and outflows are subject to estimation in terms of both timing and the amount of future taxable earnings. Should these estimates change, the carrying value of the corresponding income tax assets or liabilities will change.

n) Financial instruments

Classification and Measurement of Financial Instruments

Financial assets and financial liabilities are classified into three categories: Amortized Cost, Fair Value through Profit and Loss (“FVTPL”) and Fair Value through Other Comprehensive Income ("FVTOCI"). The classification of financial assets is determined by their context in the Company’s business model and by the characteristics of the financial asset’s contractual cash flows. Financial assets and financial liabilities are measured at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument’s classification.

Amortized Cost

Accounts receivable; deposits; accounts payable and accrued liabilities; dividends payable; lease obligations; long-term debt; and deferred acquisition consideration are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

FVTPL

Derivative financial instruments are used by the Company to manage its exposure to various market risks. The Company’s policy is not to utilize derivative financial instruments for speculative or trading purposes. These derivative instruments are measured initially at FVTPL and are subsequently measured at fair value with changes in fair value recognized in net income. Realized gains and losses from derivatives are recognized as they occur. Unrealized gains and losses are recognized in net income at each respective reporting period. The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties to settle the outstanding transactions with reference to the estimated forward prices as of the reporting date.

FVTOCI

The Company, through its captive insurance subsidiary, holds investments for self-insured liabilities which are classified as being measured at FVTOCI as the contractual cash flows received from the investments were solely payments of principal and interest and were held within a business model whose objective was both to hold the financial assets to collect the contractual cash flows as well as to sell the financial assets. Financial assets measured at FVTOCI are subsequently measured at fair value with changes in fair value recognized in OCI, net of tax. Upon derecognition of the underlying financial asset, amounts in OCI are reclassified to net income.

Fair value measurement

CES classifies the fair value of its financial instruments 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.

Impairment of financial assets
The Company recognizes a loss allowance for expected credit losses on financial assets. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve months of expected credit losses. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in net income. The asset, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated loss increases or decreases because of an event occurring after the loss was recognized, the previously recognized loss is increased or reduced by adjusting the allowance account.

o) Net income or loss per share
Basic net income or loss per share is based on the income or loss attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period. The diluted net income or loss per share is based on the weighted average number of common shares outstanding during the period plus the effects of dilutive share equivalents which include the outstanding Share Rights and Restricted Share Units. Diluted net income or loss per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares.

p) Business combinations
The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and debt incurred or assumed at the acquisition date. The fair value of the assets and liabilities acquired is determined and compared to the fair value of the consideration paid. If the fair value of the consideration paid exceeds the fair value of the net assets acquired, then goodwill is recognized. Transaction costs associated with business combinations are expensed as incurred.

q) Significant accounting judgments and estimates
The preparation of the consolidated financial statements requires management to make estimates and assumptions 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. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made relate to, but are not limited to, the following:

Significant judgments
Determining CGUs
For the purpose of assessing impairment of non-financial assets, the Company must determine its CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU and the respective allocation of shared corporate carrying values is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Company are the Canadian Operations and the US Operations.

Leases
In determining the term of a lease, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Significant estimates
Accounts receivable
The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectible accounts, taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates. The Company uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses. The primary input in CES' expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Inventories
The Company evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Allowances are made against slow moving, obsolete, and damaged inventories and are charged to cost of sales. These allowances are assessed at each reporting date for adequacy. The reversal of any write-down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Property and equipment
Management estimates the useful lives and residual value of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

Recoverability of asset carrying values
The Company assesses its property and equipment, including intangible assets and goodwill, for possible impairment at each reporting date or if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. The recoverability of the Company's asset carrying values is assessed at the CGU level. The determination of the CGUs is subject to management judgments taking into consideration: the nature of the underlying business operations, geographical proximity of operations, shared infrastructure, and exposure to market risk.

The assessment of any impairment of property and equipment, intangible assets and goodwill is dependent upon estimates of the recoverable amount that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is estimated using future cash flow projections, discounted to their present value, expected to arise from the CGU to which the goodwill relates. The required valuation methodology and underlying financial information that is used to determine value in use requires significant estimates to be made by management. These estimates include, but are not limited to, expected levels of activity within the oil and natural gas industry, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. The estimated future cash flows are dependent upon a number of factors including, among others, future activity levels within the oil and natural gas industry, current economic and market conditions, and potential changes in government regulations. Future activity cannot be predicted with certainty and, as such, actual results may differ from these estimates. Changes to these estimates, including continued downward pressure on the global energy markets, may affect the recoverable amounts of the Company's CGUs which may then require a material adjustment to their related carrying values.

Purchase price allocations
The assets acquired and liabilities assumed are recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets, including goodwill, property and equipment, other assets, and the liabilities assumed are based on assumptions. The measurement is largely based on projected cash flows, discount rates, and market conditions at the date of acquisition.

Derivatives
The fair value of outstanding derivatives is based on forward prices, and forward foreign exchange rates as at the reporting date and may differ from what will eventually be realized. Changes in the fair value of the derivative contracts are recognized in net income. The actual gains and losses realized on eventual cash settlement will vary due to subsequent fluctuations in realized prices.

Stock-based compensation
The fair value of Share Rights granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the share right, expected volatility, actual and expected life of the Share Rights, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the Share Rights is based on historical experience and general option holder behaviour. Management also makes an estimate of the number of Share Rights and Restricted Share Units that will be forfeited and the rate is adjusted to reflect the actual number of share rights and restricted share units that vest. Consequently, the actual stock-based compensation expense associated with the Company's share-based compensation plans may vary from the amount estimated.

Income taxes
Deferred income tax assets and deferred income tax liabilities are recognized for the estimated tax consequences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases used in the computation of taxable income, measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realized based on the enacted or substantively enacted future income tax rates in effect at the end of the reporting period. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, the expected usage of existing tax pools and credits, and accordingly affect the amount of the deferred income tax assets and liabilities calculated at a point in time. These differences could materially impact net income.

The Company and its various subsidiaries are subject to corporate and other taxation in various federal, provincial and state jurisdictions in Canada, the United States, and Luxembourg. Corporate income tax and other returns are filed, and current income tax provisions are recorded, based upon the transactions entered into and recorded by the Company and are based on the estimates and calculations used by the Company during the normal course of business and in the preparation of these returns. For both the current and historical fiscal years, the Company's and its subsidiaries' income tax and other tax returns are subject to audit which could result in adjustments and potential litigation by the tax authorities, which in turn could affect the Company's tax provisions in future years. As applicable, the Company maintains provisions for uncertain tax positions that it believes are appropriate. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors at the reporting period. The Company reviews the adequacy of these provisions at the end of each reporting period and adjusts them as required. However, it is possible that, at some future date, current income tax liabilities are in excess of the Company's current income tax provisions as a result of these audits, adjustments, or litigation with tax authorities. These differences could materially impact net income.

Other Provisions & Contingencies
The determination of other provisions and contingent liabilities is a complex process that involves judgments about the outcomes of future events, estimates of timing and amount of future expenditures, the interpretation of laws and regulations, and discount rates. The amount recognized as a provision is management's best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

r) Recent Accounting Pronouncements

Adoption of IFRS 16 "Leases"

On January 1, 2019, CES adopted IFRS 16 which replaced IAS 17 “Leases” and related interpretations, using the modified retrospective method which does not require restatement of prior period financial information. Accordingly, comparative information in the Company’s financial statements is not restated. The new standard introduces a single lessee accounting model and requires a lessee to recognize an ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

On adoption of IFRS 16, CES has elected to record ROU assets based on the corresponding lease liability. Lease liabilities were measured at the present value of the remaining lease payments outstanding from commitments disclosed as at December 31, 2018, excluding short-term leases, leases of low-value assets, and variable lease payments, and discounted using the Company’s incremental borrowing rate as of January 1, 2019 which ranges from 4.4% to 6.5%.

On transition to IFRS 16, the Company elected to use the following practical expedients, as permitted under the standard:

- Grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases under IAS 17;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize an ROU asset if the underlying asset is of low-value (less than US$5);
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Account for lease components and non-lease components as a single lease component.

The lease payments associated with these short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

A reconciliation of the Company’s operating lease commitments at December 31, 2018, to the Company’s lease obligations as at the date of transition of January 1, 2019, is summarized below:

Operating lease commitment at December 31, 2018 as disclosed in the consolidated financial statements	42,750
Recognition exemption for short-term & leases of low-value assets	(7,346)
Variable payments associated with long-term leases	(12,862)
Discounted using the incremental borrowing rate at January 1, 2019	(2,630)
Lease obligation - January 1, 2019	**19,912**

The following table summarizes the impacts of adopting IFRS 16 on the consolidated financial statements:

	Balance December 31, 2018	**Adoption of IFRS 16**	**Reclassification (1)**	**Restated Balance January 1, 2019**
Property and equipment	360,963	—	(40,359)	**320,604**
Right of use assets	—	—	40,359	**40,359**
Land and buildings	—	16,496	—	**16,496**
Vehicles, trucks, and transportation equipment	—	3,221	—	**3,221**
Machinery and equipment	—	195	—	**195**
Current portion of lease obligations	(14,857)	(5,092)	—	**(19,949)**
Lease obligations	(18,239)	(14,820)	—	**(33,059)**

[1] On adoption of IFRS 16, the Company has elected to reclassify amounts relating to leased assets that were historically considered finance leases under IAS 17 from property and equipment to ROU assets on the statement of financial position.

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

4. Business Combinations

2018 Acquisition

Caradan Chemicals Inc.

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

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

The aggregate purchase price of $4,376 was paid in cash on the closing date. In conjunction with the Caradan Acquisition, the Company recorded $15 in transaction costs to general and administrative expenses during the year ended December 31, 2018.

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

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

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

Deferred Acquisition Consideration

A summary of the changes to the Company's deferred acquisition consideration is presented below:

Balance at December 31, 2018	520
Settlements	(370)
Balance at December 31, 2019	150
Current portion	150
Long-term portion	—

During 2019, the Company paid out $370 (2018 - $4,180) of deferred acquisition consideration as an earn-out upon the StimWrx division achieving certain EBITDA thresholds over a twelve month period post close.

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2019, was $603,961 (2018 - $605,242).

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

6. Property and Equipment

Property and equipment are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Office & computer equipment	Total
Cost:					
Balance at December 31, 2018	177,321	182,476	182,842	15,875	558,514
Reclass leases (note 3)	(1,826)	(54,955)	(3,703)	—	(60,484)
Additions	8,394	17,971	17,123	1,884	45,372
Disposals	(839)	(19,140)	(3,500)	(1,100)	(24,579)
Effect of movements in exchange rates	(5,771)	(6,975)	(6,589)	(807)	(20,142)
Balance at December 31, 2019	177,279	119,377	186,173	15,852	498,681
Amortization:					
Balance at December 31, 2018	34,888	84,600	66,163	11,900	197,551
Reclass leases (note 3)	(53)	(18,623)	(1,449)	—	(20,125)
Amortization for the year	9,329	15,765	16,177	2,232	43,503
Disposals	(321)	(13,117)	(2,745)	(1,026)	(17,209)
Effect of movements in exchange rates	(1,208)	(2,398)	(2,605)	(702)	(6,913)
Balance at December 31, 2019	42,635	66,227	75,541	12,404	196,807
Carrying amount at December 31, 2019	**134,644**	**53,150**	**110,632**	**3,448**	**301,874**

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Office & computer equipment	Total
Cost:					
Balance at December 31, 2017	139,818	142,331	140,959	12,440	435,548
Additions through business combinations	565	206	182	98	1,051
Additions	29,394	45,675	32,168	2,789	110,026
Disposals	(429)	(15,348)	(2,207)	(348)	(18,332)
Effect of movements in exchange rates	7,973	9,612	11,740	896	30,221
Balance at December 31, 2018	177,321	182,476	182,842	15,875	558,514
Amortization:					
Balance at December 31, 2017	25,584	65,891	50,425	9,663	151,563
Amortization for the year	7,738	24,321	12,795	1,903	46,757
Disposals	(88)	(10,041)	(911)	(309)	(11,349)
Effect of movements in exchange rates	1,654	4,429	3,854	643	10,580
Balance at December 31, 2018	34,888	84,600	66,163	11,900	197,551
Carrying amount at December 31, 2018	**142,433**	**97,876**	**116,679**	**3,975**	**360,963**

As outlined in Note 3, on adoption of IFRS 16 on January 1, 2019, all assets previously categorized as finance leases under IAS 17 and included in property and equipment were reclassified to ROU assets. Prior period comparatives were not restated. Included in accumulated depreciation for the year is $243 that has been allocated to inventory as at December 31, 2019 (2018 - $225).

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

Borrowing costs
For the year ended December 31, 2019 the company capitalized borrowing costs attributable to the construction of qualifying assets in the amount of nil (2018 - $62).

7. Right of Use Assets

Right of use assets are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Total
Cost:				
IFRS 16 transition entry (note 3)	16,496	3,221	195	19,912
Reclass leases (note 3)	1,826	54,955	3,703	60,484
Balance at January 1, 2019	18,322	58,176	3,898	80,396
Additions	2,663	12,164	435	15,262
Disposals	(104)	(11,451)	—	(11,555)
Effect of movements in exchange rates	(223)	(1,931)	(23)	(2,177)
Balance at December 31, 2019	20,658	56,958	4,310	81,926
Amortization:				
Reclass leases (note 3)	53	18,623	1,449	20,125
Balance at January 1, 2019	53	18,623	1,449	20,125
Amortization for the year	4,965	11,839	280	17,084
Disposals	(22)	(7,331)	—	(7,353)
Effect of movements in exchange rates	(56)	(596)	(17)	(669)
Balance at December 31, 2019	4,940	22,535	1,712	29,187
Carrying amount at December 31, 2019	**15,718**	**34,423**	**2,598**	**52,739**

As outlined in Note 3, on adoption of IFRS 16 on January 1, 2019, all assets previously categorized as finance leases under IAS 17 and included in property and equipment were reclassified to ROU assets. For the year ended December 31, 2019, the Company recorded $17,084 (2018 - $9,366) in depreciation expense related to its ROU assets.

8. Intangible Assets and Goodwill

Intangible assets are comprised of the following balances:

	Customer relationships	Software	Patents and other intangibles	**Total intangibles**	Goodwill
Cost:					
Balance at December 31, 2018	105,906	26,367	66,973	**199,246**	299,500
Additions	—	2,185	284	**2,469**	—
Effect of movements in exchange rates	(3,552)	(947)	(1,816)	**(6,315)**	(10,543)
Balance at December 31, 2019	102,354	27,605	65,441	**195,400**	288,957
Amortization:					
Balance at December 31, 2018	70,120	16,578	35,405	**122,103**	—
Amortization for the year	6,750	2,864	6,493	**16,107**	—
Effect of movements in exchange rates	(2,483)	(519)	(1,218)	**(4,220)**	—
Balance at December 31, 2019	74,387	18,923	40,680	**133,990**	—
Carrying amount at December 31, 2019	**27,967**	**8,682**	**24,761**	**61,410**	**288,957**

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

	Customer relationships	Software	Patents and other intangibles	**Total intangibles**	Goodwill
Cost:					
Balance at December 31, 2017	97,440	19,881	61,057	**178,378**	278,466
Additions through business combinations	2,524	—	13	**2,537**	2,928
Additions	—	5,723	2,861	**8,584**	—
Disposals	—	(231)	—	**(231)**	—
Effect of movements in exchange rates	5,942	994	3,042	**9,978**	18,106
Balance at December 31, 2018	105,906	26,367	66,973	**199,246**	299,500
Amortization:					
Balance at December 31, 2017	57,782	13,979	27,168	**98,929**	—
Amortization for the year	8,476	2,350	6,455	**17,281**	—
Disposals	—	(52)	—	**(52)**	—
Effect of movements in exchange rates	3,862	301	1,782	**5,945**	—
Balance at December 31, 2018	70,120	16,578	35,405	**122,103**	—
Carrying amount at December 31, 2018	**35,786**	**9,789**	**31,568**	**77,143**	**299,500**

Impairment testing for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the Company's CGUs which represent the lowest level within the Company at which the goodwill is monitored. Goodwill is allocated to the Company's CGUs as follows:

	Canadian Operations	**US Operations (1)**	**Total**
Balance at December 31, 2018	79,589	219,911	299,500
Effect of movements in exchange rates	—	(10,543)	(10,543)
Balance at December 31, 2019	79,589	209,368	288,957

[1]*Amounts denominated in foreign currencies have been translated at the respective year-end exchange rates*

The Company's impairment analysis as of December 31, 2019, indicated that the recoverable amount of the net assets for each CGU exceeded its respective carrying value and, therefore, no impairment was recorded. The recoverable amount of the CGU's was based on their value in use. The key assumptions for the value in use calculations are the discount rates and expected growth rates in future cash flows. At December 31, 2019 an estimated risk adjusted, pre-tax discount rate of 13.7% and 13.5% (2018 - 14.4% and 14.9%) was used for the Canadian Operations CGU and US Operations CGU, respectively. The growth rates represent management's assessment of future industry trends and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 1% in 2021 to positive 7% in later years for the Canadian Operations CGU and a range of negative 9% in 2020 to positive 10% in later years for the US Operations CGU. For both CGUs, the Company has used a 2.0% terminal growth rate (2018 - 2.0%). A decrease of 1.0% in the terminal growth rate would result in a goodwill impairment for the US CGU. An increase of 1.3% and 0.5% of the estimated risk adjusted, pre-tax discount in Canada and the US, respectively, would result in a goodwill impairment for the Canadian and US CGUs. Future cash flows are 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.

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

9. Other Assets

The Company holds investments within its Barbados-based captive insurance company for self-insured liabilities that are subject to insurance regulatory requirements and are categorized as financial assets at fair value through OCI. The investment portfolio is comprised of US dollar ("USD") cash and cash equivalents and investment grade corporate and government securities as follows:

	As at	
	December 31, 2019	December 31, 2018
Fixed income securities, with maturities due:		
Less than 1 year	**4,013**	1,543
1-5 years	**4,032**	1,617
Greater than 5 years	**990**	507
	9,035	3,667
Cash and cash equivalents	**252**	339
Equities	**2,767**	854
Other assets	**12,054**	4,860

Amounts denominated in foreign currencies have been translated at the respective period end exchange rates

Certain of these investments in the amount of $979 (December 31, 2018 - $1,379) have been pledged as collateral for letters of credit by the banker of the Company's captive insurance company in favor of the underwriting companies.

10. Long-Term Debt

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

	As at	
	December 31, 2019	December 31, 2018
Senior Facility	**77,341**	162,036
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**290,954**	300,000
	368,295	462,036
Less: unamortized debt issue costs	**(5,510)**	(6,445)
Long-term debt	**362,785**	455,591

Senior Facility

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

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

As at December 31, 2019, the maximum available draw on the Senior Facility was $170,000 on the Canadian facility and US$50,000 on the US facility. As at December 31, 2019, the Company had a net draw of $76,725 on the Senior Facility

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

(December 31, 2018 - $161,501), with capitalized transaction costs of $616 (December 31, 2018 - $535). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

Under the Senior Facility, CES is subject to the following financial covenants:
- The ratio of Net Senior Debt to trailing EBITDA must not exceed 2.50:1.00 calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00, calculated on a rolling four-quarter basis.

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

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

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

	As at	
	December 31, 2019	December 31, 2018
Net Senior Debt	**107,812**	197,221
EBITDA for the four quarters ended	**159,980**	166,012
Ratio	**0.674**	1.188
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**159,980**	166,012
Interest Expense for the four quarters ended	**26,226**	26,033
Ratio	**6.100**	6.377
Minimum	**2.500**	2.500

Senior Notes
On November 28, 2019, the Company repurchased and canceled $9,046 of its Senior Notes for an aggregate purchase price of $8,548 resulting in a gain of $498. As at December 31, 2019, the Company had $290,954 of 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.

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

As at December 31, 2019, the Company was in compliance with the terms and covenants of its lending agreements. For the year ended December 31, 2019, the Company recorded $28,509 (2018 -$27,309) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments on the Company's long-term debt at December 31, 2019, are as follows:

2020	—
2021	—
2022	77,341
2023	—
2024	290,954
2025 and thereafter	—
	368,295

11. Leases

The Company incurs lease payments under a number of lease arrangements for which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company's leases are for terms ranging from February 2020 through February 2030 with interest rates of up to 7.37% and a weighted average interest rate of 5.37%.

As at January 1, 2019 (note 3)	**53,008**
Additions	**15,262**
Interest expense	**2,671**
Lease payments	**(24,618)**
Effects of movements in exchange rates	**(1,477)**
As at December 31, 2019	**44,846**
Current portion of lease obligation	**21,766**
Long-term portion of lease obligation	**23,080**

Future minimum lease payments outstanding under the Company's lease obligations at December 31, 2019 are as follows:

Less than 1 year	**22,800**
1-5 years	**23,616**
5+ years	**2,109**
Total lease payments	**48,525**
Amount representing implicit interest	**(3,679)**
Lease obligations	**44,846**

Payments recognized in the financial statements relating to short-term leases, variable lease payments, and leases of low-value assets for the year ended December 31, 2019 were $4,331. The Company's short-term leases, variable lease payments, and leases of low-value assets consist of leases of information technology, office equipment, and short-term facility rentals.

12. Cost of Sales

Included in cost of sales for the year ended December 31, 2019, is depreciation charged on property and equipment of $51,864 (2018 – $41,285) and employee compensation and benefits of $193,825 (2018 – $174,159).

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

13. General and Administrative Expenses

Included in general and administrative expense for the year ended December 31, 2019, is depreciation charged on property and equipment and amortization charged on intangible assets of $24,587 (2018 – $22,529), stock-based compensation of $17,626 (2018 – $27,262), employee compensation and benefits of $92,342 (2018 – $88,599), and one-time executive severance costs of $2,963 (2018 – $2,660).

14. Finance Costs

The Company recognized the following finance costs in its consolidated statement of net income and comprehensive (loss) income:

	Year Ended December 31,	
	2019	2018
Interest on debt, net of interest income	**27,288**	26,162
Less: capitalized interest	—	(62)
Amortization of debt issue costs and premium	**1,319**	1,275
Foreign exchange (gain) loss	**(180)**	396
Financial derivative loss (gain)	**34**	(1,485)
Gain on repurchase of senior unsecured notes	**(498)**	—
Other finance costs	**36**	73
Finance costs	**27,999**	26,359

15. Other Income

During the year ended December 31, 2018, the Company received proceeds on property insurance claims in the amount of $6,470 resulting in the recognition of a gain of $4,936 in excess of the net book value of property and equipment derecognized at the time of the claim.

16. Income Taxes

CES is subject to federal, provincial, and state income taxes in Canada, the United States, and Luxembourg based on the taxable income or loss including the transactions entered into and recorded by the Company and based on the estimates and calculations used by the Company during the normal course of business to the extent that income is not sheltered by existing tax pools. The provision for corporate income taxes consists of:

	Year Ended December 31,	
	2019	2018
Current income tax expense		
Current year income tax expense	**3,839**	3,487
Prior year income tax expense adjustment	**(55)**	342
Current income tax expense	**3,784**	3,829
Deferred income tax expense		
Origination and reversal of temporary differences	**8,140**	168
Changes in tax rates (1)	**3**	—
Prior year income tax expense adjustment	**(83)**	(89)
Deferred income tax expense	**8,060**	79
Income tax expense	**11,844**	3,908

[1]During the second quarter of 2019, the Alberta government enacted legislation, which reduces the Alberta corporate tax rate from 12% to 8% over the period July 1, 2019 through January 1, 2022.

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

The variation between the income taxes calculated at the Canadian statutory rate and the Company's recorded income taxes is explained as follows:

	Year Ended December 31,	
	2019	2018
Income before taxes	**41,949**	51,643
Combined Canadian statutory rate	**26.64%**	27.00%
Provision for income taxes computed at the Canadian statutory rate	**11,175**	13,944
Effects on taxes resulting from:		
Non-deductible expenses	**2,282**	1,327
Stock-based compensation	**3,637**	4,868
Deductions for tax in excess of accounting, net	**1,997**	(15,310)
Adjustment of prior year taxes	**(175)**	(33)
Non-taxable capital gain	**(66)**	—
Income tax in jurisdictions with different tax rates	**807**	1,601
Foreign exchange gain	**(183)**	(282)
Change in unrecognized deferred income tax asset	**(7,633)**	(2,212)
Change in statutory rate	**3**	5
Income tax expense	**11,844**	3,908

The components of deferred income tax assets and liabilities are as follows:

	As at	
	December 31, 2019	December 31, 2018
Property and equipment	**(38,611)**	(38,325)
Goodwill and other intangible assets	**(2,406)**	5,610
Financing costs and other tax credits	**(2)**	1,331
Other temporary differences	**13,140**	13,341
Non-capital losses	**34,360**	31,857
Capital losses	**1,313**	1,422
Unrecognized tax benefit, net	**(7,515)**	(6,546)
Net deferred income tax asset (liability)	**279**	8,690
Deferred income tax asset	**2,918**	14,352
Deferred income tax liability	**(2,639)**	(5,662)

For the purposes of the preceding table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction.

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

The movement in deferred income tax liabilities and assets, without taking into consideration the offsetting of balances within the same jurisdiction, is:

	Year Ended December 31,	
	2019	2018
Deferred income tax liabilities:		
Charged (credited) to earnings	**(3,023)**	(90)
	(3,023)	(90)
Deferred income tax assets:		
Charged (credited) to earnings	**10,965**	169
Charged (credited) to equity	**469**	(1,083)
	11,434	(914)
Net Movement	**8,411**	(1,004)

No deferred tax liability has been recognized as at December 31, 2019 on temporary differences associated with investments in subsidiaries where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

Tax loss carry forwards that can be utilized in future years are as follows:

	As at December 31, 2019	Expiration Date
Canada:		
Non-capital losses	**48,639**	2031-2039
Net capital losses	**10,287**	Indefinite
United States:		
Non-capital losses	**87,560**	After 2034
Luxembourg		
Operating losses	**382**	2,035

As at December 31, 2019, there are unrecognized deferred income tax assets relating to capital and non-capital losses of $7,515 (2018 - $6,526), other financing costs of $4,925 (2018 - $12,312), and investment tax credits of $853 (2018 - $807). These have not been recognized due to the uncertainty over recoverability of these respective deferred tax assets.

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

17. 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:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
Common Shares	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**265,886,609**	**651,116**	267,935,090	655,028
Issued pursuant to stock-based compensation	**3,847,713**	**—**	2,739,909	1,362
Contributed surplus related to stock-based compensation	**—**	**22,144**	—	14,200
Issued pursuant to stock settled director fee	**23,672**	**60**	11,510	58
Common shares repurchased and canceled through NCIB	**(5,801,703)**	**(13,146)**	(4,799,900)	(19,532)
Balance, end of year	**263,956,291**	**660,174**	265,886,609	651,116

Normal Course Issuer Bid ("NCIB")

On July 11, 2019, the Company announced the renewal of its previous NCIB which ended on July 16, 2019. Under the renewed NCIB, effective July 17, 2019, the Company may repurchase for cancellation up to 18,649,192 common shares, being 7.5% of the public float of common shares at the time of renewal. The renewed NCIB will terminate on July 16, 2020 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election. Since inception of the Company's NCIB programs and up to December 31, 2019, the Company has repurchased 10,601,603 common shares at an average price of $3.08 per share for a total amount $32,678. For the year ended December 31, 2019, the Company repurchased 5,801,703 common shares at an average price of $2.27 for a total amount of $13,146. Subsequent to December 31, 2019, the Company purchased 2,325,277 additional shares at a weighted average price per share of $2.07 for a total of $4,805.

c) Net income per share

In calculating the basic and diluted net income per share for the years ended December 31, 2019 and 2018, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
	2019	2018
Net income	**30,106**	47,735
Weighted average number of shares outstanding:		
Basic shares outstanding	**265,956,626**	268,004,817
Effect of dilutive shares	**6,648,346**	6,868,175
Diluted shares outstanding	**272,604,972**	274,872,992
Net income per share - basic	**$0.11**	$0.18
Net income per share - diluted	**$0.11**	$0.17

Excluded from the calculation of dilutive shares for the year ended December 31, 2019, are 10,918,080 of Share Rights (2018 – 9,091,600) that are considered anti-dilutive.

18. Stock-Based Compensation

As at December 31, 2019, a total of 26,395,629 common shares were reserved for issuance under the Company's Restricted Share Unit Plan, Share Rights Incentive Plan, and Stock Settled Director Fee Program, of which 10,196,444 common shares remained available for grant. For the year ended December 31, 2019, stock compensation expense of $17,626 (2018 – $27,262) 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) 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:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**6,267,482**	**$6.03**	4,706,493	$5.98
Granted during the year	**4,542,907**	**2.52**	4,236,453	5.89
Reinvested during the year	**169,009**	**4.51**	67,850	6.04
Vested during the year	**(3,847,713)**	**5.76**	(2,421,955)	5.68
Forfeited during the year	**(720,145)**	**4.96**	(321,359)	6.29
Balance, end of year	**6,411,540**	**$3.79**	6,267,482	$6.03

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 year ended December 31, 2019, was reduced by an estimated weighted average forfeiture rate of 2.97% per year (2018 - 4.98%) at the date of grant.

b) 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:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**12,333,645**	**$6.29**	14,875,400	$6.38
Granted during the year	—	—	210,000	6.07
Exercised during the year	—	—	(317,955)	4.28
Expired during the year	**(1,179,000)**	**10.09**	(1,258,000)	7.16
Forfeited during the year	**(1,367,000)**	**5.93**	(1,175,800)	6.93
Balance, end of year	**9,787,645**	**$5.89**	12,333,645	$6.29
Exercisable Share Rights, end of year	**8,856,645**	**$5.88**	8,913,245	$6.64

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

The following table summarizes information about the outstanding grants under the Company's SRIP as at December 31, 2019:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
$3.10 - $4.83	2,784,045	$4.20	1.62	2,784,045	$4.20
$4.84 - $6.17	2,473,600	5.87	2.51	1,659,600	5.87
$6.18 - $6.77	361,000	6.46	1.73	301,000	6.48
$6.78 - $7.07	3,590,000	6.92	0.39	3,590,000	6.92
$7.08 - $7.55	579,000	7.32	1.64	522,000	7.31
	9,787,645	$5.89	1.40	8,856,645	$5.88

19. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2019, as follows:

	Dividend Record Date	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.005	**1,330**
February	Feb 28	Mar 15	$0.005	**1,330**
March	Mar 29	Apr 15	$0.005	**1,335**
April	Apr 30	May 15	$0.005	**1,332**
May	May 31	Jun 14	$0.005	**1,332**
June	Jun 28	Jul 15	$0.005	**1,329**
July	Jul 31	Aug 15	$0.005	**1,328**
August	Aug 30	Sept 13	$0.005	**1,328**
September	Sep 30	Oct 15	$0.005	**1,328**
October	Oct 31	Nov 15	$0.005	**1,326**
November	Nov 29	Dec 13	$0.005	**1,324**
December	Dec 31	Jan 15	$0.005	**1,320**
Total dividends declared during the year			$0.060	**15,942**

Subsequent to December 31, 2019, the Company declared dividends to holders of common shares in the amount of $0.005 per common share payable on February 14, 2020 and March 13, 2020, for shareholders of record on January 31, 2020 and February 28, 2020.

20. 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	2,764
1-5 years	75
5+ years	—
Total	**2,839**

Payments denominated in foreign currencies have been translated using the December 31, 2019 exchange rate

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

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

21. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The Company's financial assets and liabilities consist of accounts receivable, deposits, accounts payable and accrued liabilities, dividends payable, lease obligations, long-term debt, and deferred acquisition consideration. The carrying values of accounts receivable, deposits, 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, excluding the Senior Notes, and 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 and fair value disclosure of the Senior Notes is based on their estimated trading price on December 31, 2019. At December 31, 2019, the estimated fair value of the Senior Notes was $290,752 (December 31, 2018 - $285,502) and is based on level 2 inputs as the inputs are observable through correlation with market data.

The following table aggregates the Company's financial derivatives and financial assets at fair value through OCI in accordance with the fair value hierarchy:

	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2019					
Financial derivative liability	(78)	(78)	—	(78)	—
Other assets	12,054	12,054	12,054	—	—
	11,976	11,976	12,054	(78)	—
As at December 31, 2018					
Financial derivative asset	270	270	—	270	—
Other assets	4,860	4,860	4,860	—	—
	5,130	5,130	4,860	270	—

b) Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Company. The Company manages credit risk by assessing the creditworthiness of its customers on an ongoing basis and continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable, to assess collectability. Accounts receivable are primarily comprised of balances from customers operating primarily in the oil and gas industry. Accordingly, the Company views the credit risks on these amounts as normal for the industry. The company has trade and other receivables as follows:

	As at	
	December 31, 2019	December 31, 2018
Trade receivables	**198,180**	234,402
Allowance for doubtful accounts	**(2,333)**	(2,378)
Total trade receivables	**195,847**	232,024
Accrued revenue	**57,357**	69,645
Other receivables	**4,276**	9,553
Total trade and other receivables	**257,480**	311,222

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

The company uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses based on historical loss rates, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. On adoption of IFRS 9, there was no material change in the provision recognized. An analysis of accounts receivable is as follows:

	As at	
	December 31, 2019	December 31, 2018
0-30 days	**103,995**	114,081
31-60 days	**60,541**	76,502
61-90 days	**19,094**	28,091
91-120 days	**7,113**	8,684
121+ days	**7,437**	7,044
Total past due	**198,180**	234,402

The change in the provision for expected credit losses is as follows:

	As at	
	December 31, 2019	December 31, 2018
Balance, beginning of year	**2,378**	2,224
Additional allowance	**310**	518
Amounts collected	**(17)**	(200)
Amounts used	**(247)**	(327)
Effect of movements in exchange rates	**(91)**	163
Balance, end of year	**2,333**	2,378

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2019, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $621 lower/higher for the respective year ended December 31, 2019 (2018 - $590 lower/higher).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises primarily from its working capital balances denominated in foreign currencies and on the investment in its foreign operations. The Company uses the USD as its functional currency in its US operations and in its other foreign jurisdictions. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2019, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to increase/decrease net income by approximately $653 (2018 - decrease/increase $1,099).

At December 31, 2019, the Company had entered into the following foreign exchange USD forward purchase contracts to manage its exposure to upcoming USD dividend payments and USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance USD$000s	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3101
February 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3100
March 2020	US2,000	Deliverable Forward	Physical Purchase	$1.3101
April 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2991
May 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2991
June 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2992
July 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2992
August 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2993
September 2020	US1,000	Deliverable Forward	Physical Purchase	$1.2993
Total	US12,000			$1.3046

The fair value of these transactions is based upon the estimated amounts that would have been paid to or received from counterparties in order to settle the outstanding transactions with reference to the estimated forward prices as of the date of the consolidated statement of financial position. The contracts are transacted with counterparties with whom management has assessed credit risk and due to their relative short-term nature, management has determined that no adjustment for credit risk or liquidity risk is required in determining the estimated settlement price. The actual amounts realized will be based on the settlement prices at the time of settlement and will differ from these estimates. The Company has not designated any of these financial contracts as hedges and has therefore recorded the unrealized gains and losses on these contracts in the consolidated statement of financial position as assets or liabilities with changes in their fair value recorded in net income for the period.

The Company recognized the following relating to its foreign currency derivative contracts in its consolidated statements of net income and comprehensive (loss) income:

	Year Ended December 31,	
	2019	2018
Realized financial derivative gain	**(314)**	(702)
Unrealized financial derivative loss (gain)	**348**	(783)
Financial derivative loss (gain)	**34**	(1,485)

At December 31, 2019, a favourable or unfavourable 1% change in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase or decrease, respectively, to net income of $156 (2018 - $27).

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas which impact overall activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2019, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

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

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by maintaining a committed facility and through prudent management of its operational cash flows.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2019:

	Payments Due By Period [1]					
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	127,071	—	—	—	—	**127,071**
Dividends payable [2]	1,320	—	—	—	—	**1,320**
Income taxes payable	—	1,573	—	—	—	**1,573**
Deferred acquisition consideration	150	—	—	—	—	**150**
Senior Notes [3]	—	—	—	290,954	—	**290,954**
Interest on Senior Notes	—	18,548	18,548	55,645	—	**92,741**
Lease obligations [4]	3,521	18,245	14,329	6,966	1,785	**44,846**
Commitments [5]	1,072	1,692	51	24	—	**2,839**
	133,134	40,058	32,928	353,589	1,785	**561,495**

Notes:

[1]*Payments denominated in foreign currencies have been translated using the December 31, 2019 exchange rate.*

[2] *Dividends declared as of December 31, 2019.*

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

[4] *Lease obligations reflect principal payments and excludes any associated interest portion.*

[5]*Commitments include amounts relating to short-term leases, leases of low-value assets, variable payments associated with long-term leases, and capital commitments.*

22. Capital Management

The overall capitalization of the Company is as follows:

	As at	
	December 31, 2019	December 31, 2018
Long-term debt [1] (note 10)	**368,295**	462,036
Shareholders' equity	**679,310**	697,570
Total capitalization	**1,047,605**	1,159,606

[1] *Includes: Senior Notes and net draw on Senior Facility*

For the year ended December 31, 2019, the Company considers capital to include shareholders' equity and long-term debt. The Company's objectives when managing capital are to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions; as well as to maintain creditor and shareholder confidence.

The Company's overall capital management strategy remains unchanged in 2019. Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, CES may adjust the level of dividends paid to shareholders, issue or repurchase shares, repurchase senior notes, dispose of assets, repay debt, or incur new debt.

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

In addition to monitoring the external financial covenants as detailed in Note 10, the Company manages capital by analyzing working capital levels, forecasted cash flows, planned investments in property and equipment, and general economic conditions. The Company is subject to certain financial covenants in its credit facility and Senior Notes indenture. As at December 31, 2019, the Company is in compliance with all of the financial requirements under all its lending agreements.

23. Supplemental Information

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

	Year Ended December 31,	
	2019	2018
(Increase) decrease in current assets		
Accounts receivable (includes income taxes receivable)	**55,215**	(25,206)
Inventory	**18,031**	(60,945)
Prepaid expenses and deposits	**(8,345)**	(761)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities (includes income taxes payable)	**603**	14,852
Effects of movement in exchange rate	**(13,782)**	20,857
	51,722	(51,203)
Relating to:		
Operating activities	**54,976**	(55,133)
Investing activities	**(3,254)**	3,930

The changes in non-cash working capital exclude the impact of any working capital acquired through business combinations in the respective periods

For the years ended December 31, 2019 and 2018, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

24. Geographical Information

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

	Revenue	
	Year Ended December 31,	
	2019	2018
United States	**906,377**	847,841
Canada	**370,880**	423,210
	1,277,257	1,271,051

	Long-Term Assets (1)	
	December 31, 2019	December 31, 2018
United States	**491,547**	512,052
Canada	**225,487**	230,414
	717,034	742,466

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

25. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2019, remuneration of $12,798 included $6,043 of salaries and cash-based compensation and $6,755 of stock-based compensation costs (2018 – $8,174 and $3,180, respectively). During the year ended December 31, 2019, the Company recorded general and administrative expenses of $2,963 in respect of one-time executive-related severance costs. During the year ended December 31, 2018, the Company recorded general and administrative expenses of $2,660 and stock-based compensation expense of $693 in respect of one-time CFO-related transition costs.

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

During the year ended December 31, 2019, CES paid rent of $57 (2018 - $116) to an executive officer of the Company for use of a temporary rental property. During the year ended December 31, 2018, CES bought property and equipment with an approximate fair value $320 from a former executive officer of the Company, and from companies controlled by the respective former executive officer, for a purchase price of $320. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

26. Significant Subsidiaries

The Company operates through two significant subsidiaries based on geographic location:

Subsidiary Name	Country of Incorporation	Ownership Interest %	
		December 31, 2019	December 31, 2018
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

27. Economic Dependence

For the year ended December 31, 2019, one customer accounted for 13% (2018 – 11%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

BOARD OF DIRECTORS
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Chairman

John M. Hooks[2]

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Spencer D. Armour III[1,2]

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Stella Cosby[2,3]

Thomas J. Simons

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

OFFICERS
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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 – 6th Avenue SW
Calgary, AB T2P 0B2
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

US BUSINESS UNITS
AES Drilling Fluids
Suite 230, 11767 Katy Freeway
Houston, TX 77079
Phone: 281-556-5628
Fax: 281-589-7150

JACAM Chemical Company
205 S. Broadway
Sterling, KS 67579
Phone: 620-278-3355
Fax: 620-278-2112

Catalyst Oilfield Services
11999 East Highway 158
Gardendale, TX 79758
Phone: 432-563-0727
Fax: 432-224-1038

CANADIAN BUSINESS UNITS
Canadian Energy Services and PureChem Services
Suite 1400, 332 – 6th Avenue SW
Calgary, AB T2P 0B2
Phone: 403-269-2800
Toll Free: 1-888-785-6695
Fax: 403-266-5708

Sialco Materials Ltd.
6605 Dennett Place
Delta, BC V4G 1N4
Phone: 604-940-4777
Toll Free: 1-800-335-0122
Fax: 604-940-4757

Clear Environmental Solutions
Suite 720, 736 – 8th Avenue SW
Calgary, AB T2P 1H4
Phone: 403-263-5953
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