



CES Energy
Solutions

Condensed Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2020 and 2019

CES Energy Solutions Corp.

Condensed Consolidated Statement of Financial Position (unaudited)

(stated in thousands of Canadian dollars)

	As at	
	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Accounts receivable	148,907	257,480
Financial derivative asset	79	—
Income taxes receivable	81	88
Inventory (note 4)	196,213	220,472
Prepaid expenses and deposits	10,630	21,780
	355,910	499,820
Property and equipment (note 5)	306,758	301,874
Right of use assets (note 6)	50,152	52,739
Intangible assets	56,280	61,410
Deferred income tax asset	16,969	2,918
Other assets	12,573	12,054
Goodwill (note 7)	54,313	288,957
	852,955	1,219,772
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	53,658	127,071
Financial derivative liability	—	78
Dividends payable (note 12)	—	1,320
Income taxes payable	808	1,573
Current portion of deferred acquisition consideration	—	150
Current portion of lease obligations	23,428	21,766
	77,894	151,958
Long-term debt (note 8)	285,359	362,785
Lease obligations	18,697	23,080
Deferred income tax liability	2,424	2,639
	384,374	540,462
Commitments (note 13)		
Shareholders' equity		
Common shares (note 10)	668,119	660,174
Contributed surplus	36,019	42,686
Deficit	(419,408)	(165,829)
Accumulated other comprehensive income	183,851	142,279
	468,581	679,310
	852,955	1,219,772

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

CES Energy Solutions Corp.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	159,493	312,937	508,940	645,925
Cost of sales	138,411	243,549	420,191	507,382
Gross margin	21,082	69,388	88,749	138,543
General and administrative expenses	39,021	55,199	92,086	106,223
Operating (loss) profit	(17,939)	14,189	(3,337)	32,320
Finance costs	6,150	7,755	12,483	14,952
Impairment of goodwill (note 7)	—	—	248,905	—
Other (gain) loss	(12)	135	(574)	147
(Loss) income before taxes	(24,077)	6,299	(264,151)	17,221
Current income tax expense	627	748	966	1,640
Deferred income tax expense (recovery)	207	(2,810)	(14,486)	5,022
Net (loss) income	(24,911)	8,361	(250,631)	10,559
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss):				
Unrealized foreign exchange (loss) gain on translation of foreign operations	(25,089)	(15,924)	41,222	(31,492)
Change in fair value of other assets, net of tax	642	31	350	236
Comprehensive loss	(49,358)	(7,532)	(209,059)	(20,697)
Net (loss) income per share (note 10)				
Basic	(0.09)	0.03	(0.95)	0.04
Diluted	(0.09)	0.03	(0.95)	0.04

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

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

	Six Months Ended June 30,	
	2020	2019
COMMON SHARES		
Balance, beginning of period	660,174	651,116
Issued pursuant to stock-based compensation (note 11)	12,720	17,887
Issued pursuant to stock settled director fee	30	32
Common shares repurchased and canceled through NCIB (note 10)	(4,805)	(7,650)
Balance, end of period	668,119	661,385
CONTRIBUTED SURPLUS		
Balance, beginning of period	42,686	47,204
Reclassified pursuant to stock-based compensation (note 10)	(12,720)	(17,887)
Stock-based compensation expense (note 11)	6,053	10,465
Balance, end of period	36,019	39,782
DEFICIT		
Balance, beginning of period	(165,829)	(179,993)
Net (loss) income	(250,631)	10,559
Dividends declared (note 12)	(2,948)	(7,988)
Balance, end of period	(419,408)	(177,422)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	142,279	179,243
Unrealized foreign exchange gain (loss) on translation of foreign operations	41,222	(31,492)
Change in fair value of other assets, net of tax	350	236
Balance, end of period	183,851	147,987
	468,581	671,732

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

CES Energy Solutions Corp.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net (loss) income	(24,911)	8,361	(250,631)	10,559
Adjustments for:				
Depreciation and amortization	19,632	19,611	39,684	39,493
Stock-based compensation (note 11)	2,479	4,765	6,053	10,465
Other non-cash loss	3,193	1,203	15,486	2,120
Deferred income tax expense (recovery)	207	(2,810)	(14,486)	5,022
Gain on disposal of assets	(188)	(316)	(74)	(551)
Gain on repurchase of senior unsecured notes	(120)	—	(120)	—
Impairment of goodwill	—	—	248,905	—
Change in non-cash working capital (note 14)	103,736	32,614	71,548	48,155
	104,028	63,428	116,365	115,263
FINANCING ACTIVITIES:				
Repurchase of senior unsecured notes	(880)	—	(880)	—
Repayment of lease obligations	(6,077)	(5,461)	(12,097)	(11,134)
Decrease in Senior Facility	(93,479)	(37,437)	(79,269)	(66,650)
Shareholder dividends	(328)	(3,999)	(4,268)	(7,988)
Common shares repurchased and cancelled through NCIB (note 10)	—	(6,607)	(4,805)	(7,650)
	(100,764)	(53,504)	(101,319)	(93,422)
INVESTING ACTIVITIES:				
Investment in property and equipment	(5,552)	(11,987)	(18,349)	(24,645)
Investment in intangible assets	(340)	(564)	(740)	(1,211)
Distribution of (investment in) other assets	—	79	276	(403)
Deferred acquisition consideration	—	—	(150)	(337)
Proceeds on disposal of assets	2,628	2,548	3,917	4,755
	(3,264)	(9,924)	(15,046)	(21,841)
CHANGE IN CASH				
Cash, beginning of period	—	—	—	—
Cash, end of period	—	—	—	—
SUPPLEMENTARY CASH FLOW DISCLOSURE				
Interest paid	10,417	11,790	12,741	14,321
Income taxes paid	233	1,466	1,777	2,610

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

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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 condensed consolidated financial statements of the Company as at and for the three and six months ended June 30, 2020 and 2019 comprise the accounts of the Company and its subsidiaries (together referred to as the “Company” or “CES”).

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

2. Basis of Presentation

Statement of Compliance

These condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. These condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2019. These condensed consolidated financial statements were authorized for issue by the Company’s Board of Directors on August 13, 2020.

3. Significant Accounting Policies, Estimates and Judgments

These condensed consolidated financial statements have been prepared following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended December 31, 2019. A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual consolidated financial statements for the year ended December 31, 2019 with exception to the below.

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

Government grants

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

Stock-based compensation - cash settled transactions

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

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

4. Inventory

During the three and six months ended June 30, 2020, the Company recorded \$1,215 and \$12,283, respectively of inventory valuation write-downs as certain commodity based products were revalued to net realizable value to reflect current prices (2019 - \$nil).

5. Property and Equipment

Balance at December 31, 2019	301,874
Additions	17,953
Disposals, net of amortization	(1,831)
Amortization	(21,880)
Effect of movements in exchange rates	10,642
Balance at June 30, 2020	306,758

6. Right of Use Assets

Balance at December 31, 2019	52,739
Additions	8,093
Disposals, net of amortization	(1,871)
Amortization	(10,101)
Effect of movements in exchange rates	1,292
Balance at June 30, 2020	50,152

7. Goodwill

	Canadian Operations	US Operations ⁽¹⁾	Total
Balance at December 31, 2019	79,589	209,368	288,957
Impairment of goodwill	(79,589)	(169,316)	(248,905)
Effect of movements in exchange rates	—	14,261	14,261
Balance at June 30, 2020	—	54,313	54,313

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

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

The recoverable amount of the net assets for each CGU was based on their value in use and was estimated to be US\$475,180 for the US Operations CGU and \$253,256 for the Canadian Operations CGU. The key assumptions for the value in use calculations are the expected growth rates in future cash flows and the discount rates. At March 31, 2020 an estimated risk adjusted, pre-tax discount rate of 13.5% and 14.1% (December 31, 2019 - 13.5% and 13.7%) was used for the US Operations CGU and Canadian Operations CGU, respectively. For both CGUs, the Company has used a 2.0% terminal growth rate (December 31, 2019 - 2.0%). 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 29% in 2020 to positive 21% in later years for the US Operations CGU

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and a range of negative 21% in 2020 to positive 19% in later years for the Canadian Operations CGU. The growth or decline rates represent management's assessment of future industry trends and are based on both external and internal sources, as well as historical data. 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. At March 31, 2020, there was considerable uncertainty as to the level of demand for the Company's products and services which increased the estimation uncertainty associated with the future cash flows used in the goodwill impairment tests. Assumptions that are valid at the time of estimating the recoverable amount of each CGU may change significantly as new information becomes available.

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

8. Long-Term Debt

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

	As at	
	June 30, 2020	December 31, 2019
Senior Facility	294	77,341
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	289,954	290,954
	290,248	368,295
Less: unamortized debt issue costs	(4,889)	(5,510)
Long-term debt	285,359	362,785

Senior Facility

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

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

As at June 30, 2020, 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 June 30, 2020, the Company had a net draw of \$294 on the Senior Facility (December 31, 2019 - \$76,725) and capitalized transaction costs of \$504 (December 31, 2019 - \$616). 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. At the Company's option, CES may elect to reduce the EBITDA to interest expense covenant minimum to 1.50:1.00 for three consecutive quarters, and would be subject to an asset coverage test during this reduced interest coverage period if exercised.

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

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and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. Effective Q2, 2020, EBITDA also includes all amounts recognized on account of wage subsidy programs in connection with the COVID-19 pandemic, including the CEWS program, provided that such amounts do not exceed the costs in which they are meant to offset, or are subject to any repayment obligation.

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

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

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

	As at	
	June 30, 2020	December 31, 2019
Net Senior Debt	28,644	107,812
EBITDA for the four quarters ended	132,605	159,980
Ratio	0.216	0.674
Maximum	2.500	2.500
EBITDA for the four quarters ended	132,605	159,980
Interest Expense for the four quarters ended	24,441	26,226
Ratio	5.425	6.100
Minimum	2.500	2.500

Senior Notes

On June 10, 2020, the Company repurchased and canceled \$1,000 of its Senior Notes for an aggregate purchase price of \$880 resulting in a gain of \$120. As at June 30, 2020 the Company had \$289,954 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.

As at June 30, 2020, the Company was in compliance with the terms and covenants of its lending agreements. For the three and six months ended June 30, 2020, the Company recorded \$6,028 and \$12,905, respectively (2019 -\$7,314 and \$14,831, respectively) 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 June 30, 2020, are as follows:

2020 - 6 months	—
2021	—
2022	294
2023	—
2024	289,954
2025 and thereafter	—
	290,248

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

9. Government Grants

During the three months ended June 30, 2020, the Company applied for the Canada Emergency Wage Subsidy ("CEWS") which was passed by the Government of Canada as part of its COVID-19 Economic Response Plan. For those eligible, CEWS provides a reimbursement of compensation expense of 75% of the amount of remuneration paid up to a maximum benefit of \$847 per week, per employee, and is effective from March 15, 2020 to December 2020.

During the three months ended June 30, 2020, the Company qualified for the CEWS program and recognized \$6,277 as a reduction to wage expense with \$3,288 and \$2,989 allocated to cost of sales and general and administrative expenses, respectively.

10. Share Capital

a) Authorized

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

b) Issued and outstanding

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

<i>Common Shares</i>	<u>Six Months Ended June 30, 2020</u>		<u>Year Ended December 31, 2019</u>	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	263,956,291	660,174	265,886,609	651,116
Issued pursuant to stock-based compensation	3,222,770	—	3,847,713	—
Contributed surplus related to stock-based compensation	—	12,720	—	22,144
Issued pursuant to stock settled director fee	30,024	30	23,672	60
Common shares repurchased and canceled through NCIB	(2,325,277)	(4,805)	(5,801,703)	(13,146)
Balance, end of period	264,883,808	668,119	263,956,291	660,174

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 terminated on July 16, 2020. Since inception of the Company's NCIB programs and up to June 30, 2020, the Company has repurchased 12,926,880 common shares at an average price of \$2.90 per share for a total amount \$37,483. For the six months ended June 30, 2020, the Company repurchased 2,325,277 common shares at an average price of \$2.07 for a total amount of \$4,805.

Subsequent to June 30, 2020, the Company renewed the existing NCIB to repurchase for cancellation up to 19,025,236 common shares, being 7.5% of the public float of common shares at the time of renewal. The renewed NCIB will terminate on July 20, 2021 or such earlier date as the maximum number of common shares are purchased pursuant to the NCIB or the NCIB is completed or is terminated at the Company's election.

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

c) Net income per share

In calculating the basic and diluted net (loss) income per share for the three and six months ended June 30, 2020 and 2019, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net (loss) income	(24,911)	8,361	(250,631)	10,559
Weighted average number of shares outstanding:				
Basic shares outstanding	263,715,927	266,719,773	263,213,649	266,432,313
Effect of dilutive shares	—	6,365,989	—	6,144,499
Diluted shares outstanding	263,715,927	273,085,762	263,213,649	272,576,812
Net (loss) income per share - basic	(\$0.09)	\$0.03	(\$0.95)	\$0.04
Net (loss) income per share - diluted	(\$0.09)	\$0.03	(\$0.95)	\$0.04

Excluded from the calculation of dilutive shares for the three and six months ended June 30, 2020, are 7,935,399 and 8,812,372, respectively (2019 – 11,340,533 and 11,708,733, respectively) of Share Rights that are considered anti-dilutive.

11. Stock-Based Compensation

For the three and six months ended June 30, 2020, stock-based compensation expense of \$2,479 and \$6,053, respectively (2019 – \$4,765 and \$10,465, respectively) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans. As at June 30, 2020, a total of 13,244,190 common shares were reserved for issuance under the Company's Restricted Share Unit Plan and Stock Settled Director Fee Program, of which 4,190,656 common shares remained available for grant.

a) Restricted Share Unit ("RSU") Plan

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

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

	Six Months Ended June 30, 2020		Year Ended December 31, 2019	
	Restricted Share Units	Average Price	Restricted Share Units	Average Price
Balance, beginning of period	6,411,540	\$3.79	6,267,482	\$6.03
Granted during the period	5,941,372	0.93	4,542,907	2.52
Reinvested during the period	72,224	3.52	169,009	4.51
Vested during the period	(3,222,770)	3.95	(3,847,713)	5.76
Forfeited during the period	(148,832)	4.64	(720,145)	4.96
Balance, end of period	9,053,534	\$1.87	6,411,540	\$3.79

The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the three and six months ended June 30, 2020, was reduced by an estimated weighted average forfeiture rate of 0.12% per year at the date of grant.

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

b) Phantom Share Unit ("PSU") Plan

Effective June 23, 2020, the Company implemented the PSU Plan which provides incentives to eligible non-executive employees and Consultants of the Company and its Affiliates through the issuance of PSUs. The PSUs generally vest over three years, on the anniversary from the date of grant, subject to other such vesting schedules or conditions as determined by the Administrator. Throughout the vesting period, holders of Phantom Shares will be entitled to the dividend equivalents in the form of additional Phantom Shares on each dividend payment date, to be held in the PSU account until such time as the awards have vested.

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

	Six Months Ended June 30, 2020	
	Phantom Share Units	Average Price
Balance, beginning of period	—	\$—
Granted during the period	4,829,781	1.14
Balance, end of period	4,829,781	\$1.14

The stock-based compensation costs for PSUs granted are based on the five day volume weighted average share price at the date of grant, taking into account an estimated weighted average forfeiture rate of 3.175% per year at the date of grant.

c) Share Rights Incentive Plan ("SRIP")

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

A summary of changes under the SRIP is presented below:

	Six Months Ended June 30, 2020		Year Ended December 31, 2019	
	Share Rights	Average Exercise Price	Share Rights	Average Exercise Price
Balance, beginning of period	9,787,645	\$5.89	12,333,645	\$6.29
Expired during the period	(3,528,000)	6.92	(1,179,000)	10.09
Forfeited during the period	(376,800)	5.71	(1,367,000)	5.93
Balance, end of period	5,882,845	\$5.28	9,787,645	\$5.89
Exercisable Share Rights, end of period	5,597,845	\$5.26	8,856,645	\$5.88

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

Range of exercise prices	Share Rights Outstanding			Share Rights Exercisable	
	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
\$3.10 - \$3.85	570,000	\$3.12	0.74	570,000	\$3.12
\$3.86 - \$4.83	2,092,045	4.48	1.23	2,092,045	4.48
\$4.84 - \$5.83	898,000	5.60	2.08	618,000	5.59
\$5.84 - \$6.17	1,420,800	6.05	1.96	1,420,800	6.05
\$6.18 - \$7.55	902,000	6.98	1.21	897,000	6.98
	5,882,845	\$5.28	1.48	5,597,845	\$5.26

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)
(stated in thousands of Canadian dollars, except for share and per share amounts)

12. Dividends

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

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

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

13. Commitments

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

Less than 1 year	2,798
1-5 years	251
5+ years	—
Total	3,049

Payments denominated in foreign currencies have been translated using the June 30, 2020 exchange rate

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

14. Supplemental Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Increase) decrease in current assets				
Accounts receivable (includes income taxes receivable)	161,592	39,709	106,074	49,949
Inventory	12,603	7,212	11,976	21,734
Prepaid expenses and deposits	11,608	(558)	11,150	(1,635)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities (includes income taxes payable)	(72,538)	(7,978)	(73,935)	(16,978)
Effects of movement in exchange rate	(10,021)	(6,246)	15,355	(11,902)
	103,244	32,139	70,620	41,168
Relating to:				
Operating activities	103,736	32,583	71,548	44,868
Investing activities	(492)	(444)	(928)	(3,700)

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

For the three and six months ended June 30, 2020 and 2019, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Condensed Consolidated Statements of Cash Flows.

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

15. Geographical Information

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

	Revenue		Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
United States	121,819	236,776	349,777	461,669
Canada	37,674	76,161	159,163	184,256
	159,493	312,937	508,940	645,925

	Long-Term Assets ⁽¹⁾	
	June 30, 2020	December 31, 2019
	United States	341,108
Canada	138,967	225,487
	480,075	717,034

¹Includes: Property and equipment, right of use assets, intangible assets, other assets and goodwill**16. Related Parties**

During the six months ended June 30, 2020, CES paid rent of \$27 (2019 - \$29) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

CES Energy Solutions Corp.

Information

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Trading Symbol: CEU

OTC

Trading Symbol: CESDF

BOARD OF DIRECTORS

Kyle D. Kitagawa^{1,2}
Chairman

John M. Hooks²

Spencer D. Armour III^{1,2}

Philip J. Scherman¹

Stella Cosby^{2,3}

Thomas J. Simons

¹Member of the Audit Committee

²Member of the Compensation, Corporate Governance and
Nominating Committee

³Member of the Health, Safety and Environment
Committee

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Anthony M. Aulicino
Chief Financial Officer

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

Richard 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

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