CES Energy Solutions

Q2

Three and Six Months Ended June 30, 2020 as at August 13, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the three and six months ended June 30, 2020 and 2019, 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 August 13, 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.

EXECUTIVE SUMMARY

During the second quarter of 2020, the oil and gas industry continued to be significantly impacted by a reduction to global demand caused by the coronavirus ("COVID-19") pandemic, and uncertainty surrounding production level decisions amongst OPEC+ members. Global commodity prices fell sharply in mid-March, and conditions continued to deteriorate throughout the second quarter of 2020, resulting in production shut-ins and reduced drilling and completion activity in all major basins in North America. CES' Q2 2020 financial results included herein demonstrate our resiliency in a rapidly changing, unprecedented and difficult market, with our emphasis on established financial goals comprised of balance sheet strength, ample liquidity, working capital optimization and cost structure rationalization. Despite the challenges presented by the current economic environment, CES' overall liquidity position and balance sheet strength improved in the second quarter, as the Company once again displayed its defensible business model and counter cyclical balance sheet at low points of the cycle. The net draw on the Senior Facility declined by $92.6 million from a net draw of $92.9 million as at March 31, 2020 to $0.3 million as at June 30, 2020, driven by strong cash flow generation achieved through a combination of working capital harvest, continued inventory management and cost containment measures.

The Company remains cautious of the severity and duration of this low oil price environment as the magnitude of the further impact on the economy and associated financial effect on CES is unknown at this time. The estimates and judgments made in the preparation of the Company's condensed consolidated financial statements are difficult and subject to a higher degree of measurement uncertainty during this volatile period. CES expects that the oil and gas industry will continue to experience significant volatility and reduced activity levels throughout the remainder of 2020 and possibly into 2021. Our goal through this downturn continues to be the safety of our employees, preservation of our strong balance sheet and optimization of our industry leading operations and critical employee base to weather the downturn and maximize our potential for when conditions improve.

In response to the reduction in activity levels that began in March of 2020, CES quickly took proactive measures to right-size the business and preserve balance sheet strength, including reductions to Executive, Board of Directors' and employee compensation levels, reductions in personnel and overhead costs, elimination of non-essential capital expenditures, suspension of the Company's dividend and normal course issuer bid ("NCIB") activity. Further, the Company applied and qualified for the Federal Government's Canada Emergency Wage Subsidy ("CEWS"), whereby the Company would be eligible for a subsidy of 75 percent of Canadian employee's wages, subject to a limit of $847 per employee per week and certain additional limitations. During the three months ended June 30, 2020, the Company recognized CEWS program benefits in the amount of $6.3 million as a reduction to wage expense with $3.3 million and $3.0 million allocated to cost of sales and general and administrative expenses, respectively. The CEWS program has been instrumental in allowing CES to mitigate further Canadian personnel reductions while navigating uncertainty surrounding the severity and duration of current market conditions. Further, in a July 17, 2020 news release from the Government of Canada, it was announced that the CEWS program would be extended until December 19, 2020. While details regarding the program are being finalized, CES expects to participate in the program through to the end of the year.

CES remains committed to the safety of our employees, support of our customers, defense of our strong financial position, and preservation of shareholder value. CES' proven counter cyclical leverage model and capital light business will continue to demonstrate our resiliency to weather this challenging business environment while preparing the Company to excel as headwinds subside. The suspension of CES' dividend, accompanied by implemented cost reduction initiatives, will continue to preserve the strength of the Company’s balance sheet while maintaining liquidity to fund existing operations and potential growth initiatives. CES will be protective of its balance sheet and prudent with its capital allocation, particularly in the current low oil price environment, and will revisit utilizing the recently renewed NCIB to repurchase shares as industry conditions unfold and as our share price remains at attractive levels.

FINANCIAL HIGHLIGHTS

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s, except per share amounts)	**2020**	2019	%Change	**2020**	2019	%Change
Revenue						
United States	**121,819**	236,776	(49)%	**349,777**	461,669	(24)%
Canada	**37,674**	76,161	(51)%	**159,163**	184,256	(14)%
Total Revenue	**159,493**	312,937	(49)%	**508,940**	645,925	(21)%
Net (loss) income	**(24,911)**	8,361	nmf	**(250,631)**	10,559	nmf
per share – basic	***(0.09)***	*0.03*	nmf	***(0.95)***	*0.04*	nmf
per share - diluted	***(0.09)***	*0.03*	nmf	***(0.95)***	*0.04*	nmf
Adjusted EBITDAC (2)	**8,173**	41,528	(80)%	**59,305**	85,241	(30)%
Adjusted EBITDAC (2) % of Revenue	***5.1 %***	*13.3 %*	(8.1)%	***11.7 %***	*13.2 %*	(1.5)%
Cash provided by operating activities	**104,028**	63,428	64 %	**116,365**	115,263	1 %
Funds Flow From Operations (2)	**292**	30,814	(99)%	**44,817**	67,108	(33)%
Capital expenditures						
Expansion Capital (2)	**3,882**	7,702	(50)%	**10,722**	15,567	(31)%
Maintenance Capital (2)	**1,178**	3,841	(69)%	**6,699**	5,378	25 %
Total capital expenditures	**5,060**	11,543	(56)%	**17,421**	20,945	(17)%
Dividends declared	—	3,993	(100)%	**2,948**	7,988	(63)%
per share	—	*0.0150*	(100)%	***0.0113***	*0.0300*	(63)%
Common Shares Outstanding						
End of period	**264,883,808**	265,738,759		**264,883,808**	265,738,759	
Weighted average - basic	**263,715,927**	266,719,773		**263,213,649**	266,432,313	
Weighted average - diluted	**263,715,927**	273,085,762		**263,213,649**	272,576,812	

	As at				
Financial Position ($000s)	**June 30, 2020**	March 31, 2020	%Change	December 31, 2019	%Change
Total assets	**852,955**	1,072,067	(20)%	1,219,772	(30)%
Long-term financial liabilities(1)	**304,056**	402,036	(24)%	385,865	(21)%
Total Debt(2)	**327,484**	426,560	(25)%	407,631	(20)%
Working Capital Surplus(2)	**301,444**	417,291	(28)%	369,628	(18)%
Net Debt(2)	**26,040**	9,269	181 %	38,003	(31)%
Shareholders' equity	**468,581**	515,446	(9)%	679,310	(31)%

1 *Includes long-term portion of the Senior Facility, the Senior Notes, and lease obligations.*
2 *Refer to "Non-GAAP Measures" or "Operational Definitions" for further detail.*

Highlights for the three and six months ended June 30, 2020 in comparison to the three and six months ended June 30, 2019 for CES are as follows:

- CES' second quarter results are reflective of extremely difficult industry conditions with reduced activity levels across all operating divisions and pricing pressure resulting in margin compression. In the first two months of the year, CES' infrastructure and capabilities capitalized on relatively stronger industry conditions and represented year over year improvements in market share, revenue and margins. As industry conditions deteriorated in mid March of 2020, CES' stated goals with respect to financial management of the Company through the downturn related to: preservation of balance sheet strength in the form of debt reduction, maintaining ample liquidity, optimizing working capital harvest, and implementing reductions in cost structure. CES acted quickly on these initiatives and goals in the quarter and once again was able to demonstrate the Company's defensible business model, countercyclical balance sheet and ability to rationalize cost structure through a downturn in industry activity.

- The financial results reported for 2020 also continue to reflect the importance in CES' geographic positioning and strategic commitment to the US market which generated 76.4% of the Company's overall revenue in Q2 2020. These results demonstrate the significance of CES' diversification through operating efficiencies and capitalizing on the completed infrastructure buildout in both the US and Canada. As activity levels declined significantly during Q2 2020, CES has been able to maintain and grow its commitment to a strong and high quality customer base in both operating regions.

- As at June 30, 2020, CES had a Net Working Capital Surplus of $301.4 million, which represents a $115.9 million reduction from $417.3 million at March 31, 2020. This reduction in working capital is primarily driven by the reduction in activity levels experienced across the Company's operating divisions, and was further amplified by the Company's focus on working capital optimization over the last twelve months. With this working capital harvest, CES generated $104.0 million in cash provided by operating activities during the three months ended June 30, 2020, and primarily used this cash to reduce the Company's Total Debt position in the quarter. As at June 30, 2020, CES' Total Debt was $327.5 million, of which $290.0 million relates to the Company's Senior Notes which don't mature until October 21, 2024, representing a $99.0 million reduction from Total Debt at March 31, 2020 of $426.6 million.

- With the majority of free cash flow generated in the quarter being used to repay outstanding draws on the Company's Senior Facility, CES' net draw at June 30, 2020 was only $0.3 million on its Senior Facility (December 31, 2019 - $76.7 million; March 31, 2020 $92.9 million). The maximum available draw on the Senior Facility at June 30, 2020 was $170.0 million on the Canadian facility and US$50.0 million on the US facility (December 31, 2019 - $170.0 million and US$50.0 million, respectively), and the facility does not mature until September 28, 2022. Subsequent to June 30, 2020, CES continued to experience working capital harvest as industry activity remained at trough levels, particularly for drilling fluids end markets, and as at the date of this MD&A, the Company had a net cash balance of approximately $40.0 million and an undrawn Senior Facility.

- As noted above, the Company acted quickly on a number of proactive measures to preserve balance sheet strength through the downturn. Among these actions were initiatives relating to capex reductions, dividend suspension and NCIB activity:
    - In Q2 2020, CES incurred only $5.1 million in capital expenditures, representing a 56.2% decrease from $11.5 million in Q2 2019 and a 59.1% decrease from $12.4 million in Q1 2020. Year-to-date, CES incurred $17.4 million in capital expenditures, representing a decrease of 17% year over year. Current quarter capital expenditures are primarily comprised of expansion of the lab capabilities just outside of Midland, Texas. In light of challenging market conditions, the Company has suspended all non-essential capital expenditures and expects 2020 capital expenditures, excluding amounts financed through leasing arrangements, to be up to $30.0 million in 2020, compared to $45.2 million in 2019, and representing a $20.0 million or 40% reduction from the original 2020 capex plan of $50.0 million.
    - The Company reduced its monthly dividend on March 12, 2020 from $0.06 per share to $0.015 per share on an annualized basis. As industry conditions continued to deteriorate, CES suspended its monthly dividend on April 16, 2020. This decision will conserve approximately $16.0 million on an annualized basis.
    - CES suspended activity under the NCIB program in the second quarter of 2020 after using $4.8 million to repurchase for cancellation 2,325,277 common shares in Q1 2020. On July 16, 2020 the Company announced the renewal of its previous NCIB, which allows for the repurchase and cancellation of up to 19,025,236 common shares, being 7.5% of the public float at the time of renewal before expiry on July 20, 2021. CES has not made any purchases under its NCIB programs subsequent to June 30, 2020 and will continue to evaluate utilizing the recently renewed program as industry conditions unfold and as our share price remains at these currently attractive levels.

- In the second quarter, CES generated revenue of $159.5 million, a decrease of $153.4 million or 49.0% compared to $312.9 million in revenue for Q2 2019. For the six months ended June 30, 2020, CES generated revenue of $508.9 million, a decrease of $137.0 million or 21% from $645.9 million in the 2019 comparative period. For both periods, revenue was significantly affected by the global economic impacts of COVID-19 and low commodity price environment, which resulted in production shut-ins, deferred completions and significant declines in drilling activity in North America.

    - Revenue generated in the US in Q2 2020 was $121.8 million compared to $236.8 million in Q2 2019, a decrease of $115.0 million or 48.6%. US revenues in the quarter were negatively impacted by lower activity levels across all operating divisions. US land drilling activity fell by 61% from Q2 2019 to Q2 2020 as operators quickly curtailed 2020 capex spending in order to preserve capital and avoid uneconomic completions. In this challenging environment, CES was able to maintain its US Drilling Fluids Market Share at 13% when compared to Q2 2019. Further, the Company realized a decline in production and frac related chemical sales as many customers reverted to production shut-ins and deferred completions in the quarter.

    ◦ Revenue generated in Canada decreased 50.5% to $37.7 million in Q2 2020, respectively, over the 2019 comparative period. Both the production chemicals and drilling fluids businesses in Canada saw significant declines in industry activity levels and experienced intense pricing pressure from customers. Peak drilling activity levels were considerably lower than previous year highs and rig counts in Canada began dropping in mid-March as customers curtailed spending, shut in some existing production, and scaled back drilling in order to preserve capital.

- In light of the increasingly challenging global oilfield market and the initiatives outlined above by the Company to right-size the business, CES recorded the following items during the three and six months ended June 30, 2020 which negatively impacted net income and EBITDAC and are considered to be non-recurring:
    - Within cost of sales, the Company recorded $1.2 million and $12.3 million, respectively, of inventory write-downs as certain commodity based products were revalued to net realizable value to reflect current prices;
    - Within general and administrative expenses, the Company recorded $1.5 million and $2.6 million, respectively, in additional bad debt allowances; and
    - Within cost of sales and general and administrative expenses, the Company recorded $1.3 million and $2.0 million, respectively, in restructuring costs.

  Excluding the items noted above, CES achieved Adjusted EBITDAC of $8.2 million in Q2 2020, compared to $41.5 million in Q2 2019. For the six months ended June 30, 2020, CES achieved Adjusted EBITDAC of $59.3 million compared to $85.2 million for the respective 2019 period.

- Net loss for Q2 2020 was $24.9 million, compared to net income of $8.4 million in Q2 2019. Net income decreased from Q2 2019 to Q2 2020 primarily due to the factors outlined above, offset by lower interest expense due to working capital harvest, which reduced the average draw balance on the Senior Facility, recognition of $6.3 million benefit from the CEWS program, and a reduction in stock based compensation expense. For the six months ended June 30, 2020, net loss was $250.6 million compared to net income of $10.6 million for the six months ended June 30, 2019. For the six month comparative periods, net loss was further impacted by a $248.9 million goodwill impairment recorded by the Company in Q1 2020 and the associated deferred income tax recovery of $14.7 million. Further description of these items for the three and six months ended June 30, 2020 are found in the Results for the Period section of this MD&A.

OUTLOOK

Continually evolving impacts on the global oil and gas industry resulting from COVID-19 and the public health containment measures implemented worldwide have resulted in significantly reduced global oil demand with oil prices experiencing record low levels during the second quarter of 2020. CES remains extremely cautious with its 2020 outlook and expects significantly reduced upstream activity across North America, reduced production levels, deferred completions, downward pressure on margins, and some customers potentially experiencing formal restructurings and bankruptcies. The high level of uncertainty surrounding the magnitude and duration of this downturn has resulted in customers announcing material reductions to their capital spending and shutting in existing production, therefore resulting in a corresponding reduction in demand for the Company’s products and services. Although several producers have started bringing shut-in production back on-stream, CES has undertaken significant steps to rationalize its cost structure and will take additional appropriate actions as necessary. During the second quarter of 2020, CES applied for and received funding from the Canadian Federal Government's CEWS program thereby mitigating further personnel reductions while we navigate through this downturn. During the three months ended June 30, 2020, the Company qualified for the CEWS program and recognized $6.3 million as a reduction to wage expense with $3.3 million and $3.0 million allocated to cost of sales and general and administrative expenses, respectively. Further, in a July 17, 2020 news release from the Government of Canada, it was announced that the CEWS program would be extended until December 19, 2020. While details regarding the program require further clarification, CES expects to participate in the program through to the end of the year.

CES believes it will benefit from its consumables business model and its ability to maintain a prudent cost structure in this low oil price environment. CES’ counter cyclical leverage model allows the Company to remain resilient despite expected declines in industry activity. During the 2015-2016 downturn, CES saw a reduction in Working Capital Surplus of $152.7 million from December 31, 2014 to June 30, 2016, and was able to reduce Total Debt outstanding, fully pay down the Senior Facility, and grow cash balances through the end of Q2 2016 to $111.1 million. During the second quarter of 2020, CES harvested $103.7 million of working capital reducing the Senior Facility from a net draw of $92.9 million as at March 31, 2020 to a net draw of $0.3 million as at June 30, 2020. Currently, the Company's Senior Facility is undrawn and the Company has a net cash balance of $40.0 million as working capital harvest has continued in Q3 2020.

CES has proactively managed both the duration and the flexibility of its debt. In August 2019, CES successfully amended and extended its Senior Facility to 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 mature in October 2024. This provides the Company with an additional level of financial stability during the ongoing COVID-19 crisis and the related deterioration of the global crude oil market.

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 has suspended all non-essential capital expenditures and currently expects 2020 capital expenditures to be up to $30.0 million. CES will adjust these levels as required as conditions continue to unfold.

CES continues to believe that coming out of this downturn it can further grow its share of the oilfield consumable chemical markets in which it competes. CES also believes that competitor consolidations and business failures will provide further opportunities for CES in a recovery scenario. CES 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.

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. 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.

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.

RESULTS FOR THE PERIODS

Revenue and Operating Activities

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

	Revenue					
	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	**2020**	2019	% Change	**2020**	2019	% Change
United States	**121,819**	236,776	(49)%	**349,777**	461,669	(24)%
Canada	**37,674**	76,161	(51)%	**159,163**	184,256	(14)%
	159,493	312,937	(49)%	**508,940**	645,925	(21)%

	Key Operating Metrics					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	% Change	**2020**	2019	% Change
US	**28,645**	30,295	(5)%	**29,791**	29,895	(0.3)%
Canada	**4,888**	7,851	(38)%	**6,739**	8,046	(16)%
Total Treatment Points [(1)]	**33,533**	38,146	(12)%	**36,530**	37,941	(4)%
US	**4,650**	11,619	(60)%	**14,956**	22,737	(34)%
Canada	**669**	2,598	(74)%	**8,279**	8,783	(6)%
Total Operating Days [(1)]	**5,319**	14,217	(63)%	**23,235**	31,520	(26)%
US	**51**	128	(60)%	**83**	126	(34)%
Canada	**7**	29	(74)%	**46**	49	(5)%
Total Average Rig Count[(1)]	**58**	156	(63)%	**129**	175	(26)%
US industry rig count[(2)]	**378**	971	(61)%	**568**	999	(43)%
Canadian industry rig count[(3)]	**22**	90	(76)%	**113**	139	(19)%
US DF Market Share	**13%**	13 %	— %	**15 %**	13 %	2 %
Canadian DF Market Share	**33%**	32 %	1 %	**41 %**	35 %	6 %

[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.*

Revenue in 2020 for the US and Canada were negatively affected by reduced industry activity levels, production shut-ins, and pricing pressure from customers. In the first two months of the year, CES' infrastructure and capabilities capitalized on relatively stronger industry conditions and represented year over year improvements in market share, revenue and margins. However, starting in March and continuing into Q2 2020, customers pulled back on capital spending and operating activity in response to lower demand and commodity prices due to COVID-19.

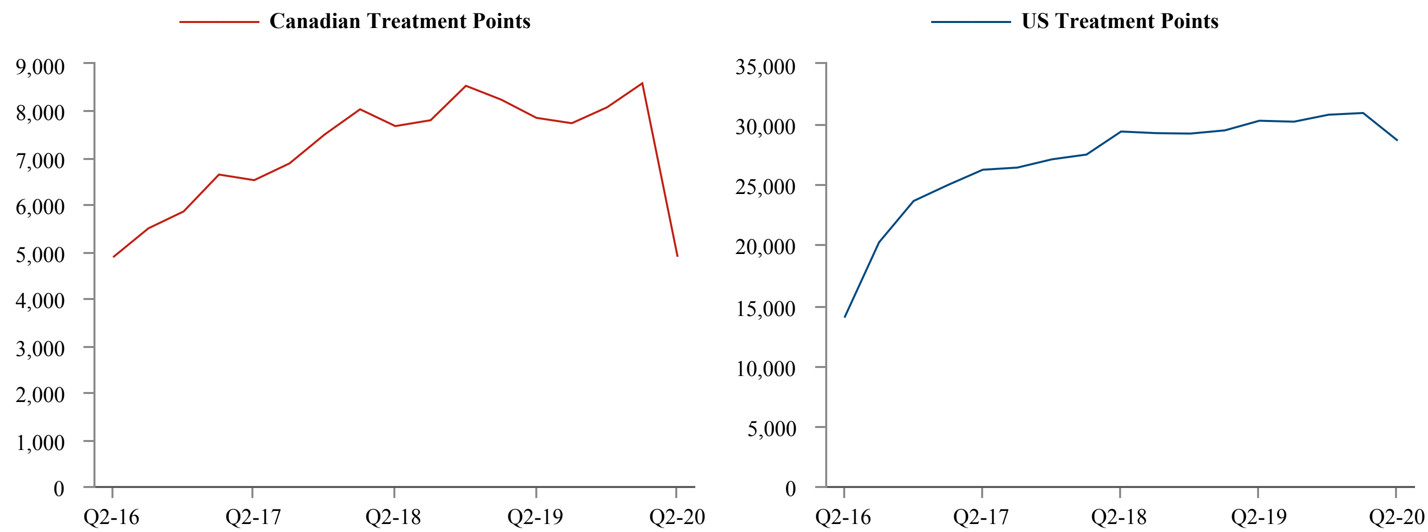
US average industry rig count decreased 60% to 51 rigs compared to 128 in Q2 2019 and US Operating Days were down 60% for the comparable periods. Despite the fall in industry activity and US Operating Days, the Company's US DF Market Share was constant at 13% for both respective quarterly periods. For the month of June in 2020, US Market Share for the Company was 15%, consistent with Q1 2020 levels. Although US Treatment Points remained fairly flat in comparison to rig counts, the production chemicals business saw a decline in production and frac related chemical sales with customers reducing frequency of chemical usage on wells to try and optimize their chemical spend, while continued price pressure on all products existed as customers are increasingly focused on managing near-term cash lifting costs.

Canadian Operating Days and Treatment Points are generally at their lowest during the second quarter of every year given the seasonality impact of spring break-up in Canada. In the current quarter, these activity declines were amplified and at record lows with the COVID-19 related global economic slowdown and extremely low commodity price environment. As customers curtailed spending and stopped drilling early in the quarter the Canadian industry rig count decreased by 76% from 90 to 22 rigs. Correspondingly, the

Company saw a 74% decrease in Canadian Operating Days from Q2 2019 to Q2 2020. Canadian Treatment Points declined by 38% year over year as many customers shut-in existing production and frac related chemical sales also declined.

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. As evidenced by the graphs below, until Q2 2020, Treatment Points have continued to generally trend upward since Q2 2016. However, as outlined above, Q2 2020 has been negatively impacted by the economic effects of COVID-19 and the low commodity price environment.

Quarterly Treatment Points



Included in revenue generated in Canada for the three and six months ended June 30, 2020 is $0.3 million and $2.4 million, respectively (2019 - $1.2 million and $3.4 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.

CES' top customers accounted for the following percentages of total revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Top five customers as a % of total revenue	**21 %**	29 %	**24 %**	27 %
Top customer as a % of total revenue	**10 %**	14 %	**13 %**	13 %

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.

	Three Months Ended June 30,			Six Months Ended June 30,		
$000s	**2020**	2019	Change	**2020**	2019	Change
Gross Margin	**21,082**	69,388	(48,306)	**88,749**	138,543	(49,794)
as a percentage of revenue	**13 %**	22 %	(9)%	**17 %**	21 %	(4)%
Add back (deduct):						
Depreciation included in cost of sales	**13,471**	13,746	(275)	**27,451**	26,432	1,019
Inventory valuation write-downs	**1,215**	—	1,215	**12,283**	—	12,283
Restructuring costs	**1,021**	—	1,021	**1,415**	—	1,415
Adjusted Gross Margin (excluding depreciation)[1]	**36,789**	83,134	(46,345)	**129,898**	164,975	(35,077)
as a percentage of revenue	**23 %**	27 %	(4)%	**25 %**	26 %	(1)%

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

In light of the low oil price environment and the initiatives described in this MD&A undertaken by the Company to rationalize the business, CES recorded the following items during the three and six months ended June 30, 2020, which negatively impacted Gross Margin and are considered to be non-recurring:

- The Company recorded $1.2 million and $12.3 million, respectively, of inventory write-downs as certain commodity based products were revalued to net realizable value to reflect current prices; and
- Within cost of sales, the Company recorded $1.0 million and $1.4, respectively, in restructuring costs.

The decline in Adjusted Gross Margin is reflective of the decline in revenue and activity levels across all business units and the pricing pressure experienced as a result. CES has responded to the falling activity levels by significantly rationalizing costs and headcount in Canada and the US in the second quarter. The Company expects pricing pressure and margin compression to continue in this low commodity price environment as customers are increasingly focused on managing near-term cash lifting costs, and as competitors take more desperate actions to retain market share. In addition, the Canadian business' gross margin was negatively impacted by cost inflation of all USD inputs as the CAD weakened considerably when compared to Q2 2019 and, in the current commodity price environment, these higher costs could not be passed on to the customer. Partially offsetting the above, CES recorded a $3.3 million benefit from the CEWS program as an offset to compensation costs within cost of sales in Q2 2020.

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 June 30,			Six Months Ended June 30,		
$000s	**2020**	2019	Change	**2020**	2019	Change
General and administrative expenses	**39,021**	55,199	(16,178)	**92,086**	106,223	(14,137)
as a percentage of revenue	**24 %**	18 %	6 %	**18 %**	16 %	2 %
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	**2,479**	4,765	(2,286)	**6,053**	10,465	(4,412)
Depreciation & amortization	**6,161**	5,865	296	**12,233**	13,061	(828)
Executive severance and management transition	—	2,963	(2,963)	—	2,963	(2,963)
Additional bad debt allowance	**1,455**	—	1,455	**2,586**	—	2,586
Restructuring costs	**310**	—	310	**621**	—	621
Adjusted General and Administrative Costs	**28,616**	41,606	(12,990)	**70,593**	79,734	(9,641)
as a percentage of revenue	**18 %**	13 %	5 %	**14 %**	12 %	2 %

In light of the low oil price environment and the initiatives described in this MD&A undertaken by the Company to rationalize the business, CES recorded the following items during the three and six months ended June 30, 2020, which negatively impacted G&A expenses and are considered to be non-recurring:

- The Company recorded $1.5 million and $2.6 million in additional bad debt allowances; and
- Within G&A, the Company recorded $0.3 million and $0.6 million in restructuring costs.

On an absolute basis, general and administrative expenses decreased over the comparable 2019 periods as the Company implemented a number of cost cutting measures early in the second quarter with respect to discretionary spending, compensation, travel and entertainment expenses, and further recorded a $3.0 million benefit from the CEWS program as an offset to compensation costs within G&A. However, as a percentage of revenue, general and administrative expenses has increased for Q2 2020, as compared with the same period in 2019 as revenue levels fell significantly year over year. In light of the uncertainty surrounding current market conditions, as activity levels fluctuate, CES will continue to diligently manage its general and administrative cost base through reductions in personnel and overhead costs, compensation levels and discretionary spending.

Stock-Based Compensation

Stock-based compensation expense decreased for the three and six months ended June 30, 2020, in comparison to the same periods in 2019, 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 in May of 2019.

Finance Costs

For the three and six months ended June 30, 2020 and 2019, finance costs were comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000s	**2020**	2019	**2020**	2019
Interest on debt, net of interest income	**5,672**	6,936	**12,284**	14,089
Amortization of debt issue costs and premium	**310**	385	**621**	716
Foreign exchange (gain) loss	**(223)**	103	**102**	(146)
Financial derivative loss (gain)	**511**	331	**(404)**	257
Gain on repurchase of senior unsecured notes	**(120)**	—	**(120)**	—
Other finance costs	**—**	—	**—**	36
Finance costs	**6,150**	7,755	**12,483**	14,952

Interest expense

Finance costs for the three and six months ended June 30, 2020 include interest on debt, net of interest income, of $5.7 million and $12.3 million, respectively (2019 - $6.9 million and $14.1 million, respectively). Included in these amounts is interest on the Company's Senior Notes in the amount of $4.5 million and $9.2 for the three and six months ended June 30, 2020 (2019 - $4.8 million and $9.5 million). Further, CES' Senior Facility draw has come down significantly in Q2 2020 compared to the respective period in 2019, resulting in lower interest costs in Q2 2020.

Foreign exchange gains and losses

Finance costs for the three and six months ended June 30, 2020 include a realized and unrealized net foreign exchange gain of $0.2 million and a net loss of $0.1 million, respectively, (2019 - net loss of $0.1 million and net gain of $0.1 million). The net foreign exchange gain during Q2 2020 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 six months ended June 30, 2020 included a realized and unrealized net derivative loss totaling $0.5 million and a gain of $0.4 million, respectively (2019 - net loss of $0.3 million and $0.3 million, respectively) relating to the Company’s foreign currency derivative contracts. As of June 30, 2020, the Company had a financial derivative asset of net $0.1 million relating to its outstanding derivative contracts (December 31, 2019 - net liability of $0.1 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 June 30, 2020, the Company had entered into the following foreign exchange USD forward purchase 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
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	US3,000			$1.2993

At June 30, 2020, the Company also had US$15.0 million outstanding in CAD forward purchase contracts at a weighted average exchange rate of $1.3664, maturing in July 2020, as a result of a USDCAD swap entered into in June 2020 which allowed the Company to utilize excess USD cash flow to pay down CAD denominated draws on the Senior Facility.

Current and Deferred Income Taxes

Income tax expense is related to taxable income in Canada, the US, and Luxembourg. For the three and six months ended June 30, 2020, income tax expense was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000s	**2020**	2019	**2020**	2019
Current income tax expense	**627**	748	**966**	1,640
Deferred income tax expense (recovery)	**207**	(2,810)	**(14,486)**	5,022
Total income tax expense (recovery)	**834**	(2,062)	**(13,520)**	6,662

Current income tax expense decreased year-over-year due to changes in activity levels and adjustments to prior year taxes. Year to date, the year-over-year decrease in deferred income tax expense was primarily due to the goodwill impairment recorded in Q1 2020, partially offset by the change in future usable tax pools.

Working Capital Surplus and Net Debt

CES continues to maintain a prudent balance sheet and focus on working capital optimization. CES' second quarter was a demonstration of CES' counter cyclical business model and ability to harvest working capital in the form of cash during periods of lower activity levels.

The Company had a Working Capital Surplus of $301.4 million as at June 30, 2020 compared to $417.3 million at March 31, 2020 and $369.6 million as at December 31, 2019. The decrease in Working Capital Surplus at June 30, 2020 is attributable to decreased revenue levels across the Company from Q1 2020 to Q2 2020 resulting in decreased accounts receivable as the Company has collected upon the majority of outstanding balances from the prior quarter, a decline in inventory levels as purchasing has been halted to align with expected near-term activity levels, along with the depreciation of USD working capital balances on translation as USDCAD declined from $1.4187 at March 31, 2020 to $1.3628 at June 30, 2020. CES' Total Debt continues to be primarily reflective of working capital investments, and as such, at June 30, 2020, the Company had Net Debt of $26.0 million as compared to $9.3 at March 31, 2020 and $38.0 million at December 31, 2019. Refer to the "Non-GAAP Measures" for further details on the calculation of Net Debt.

Goodwill Impairment

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 in Q1 2020 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 $248.9 million. As at June 30, 2020 the Company noted that there were no indicators of further impairment.

Total Long-Term Assets
Year-over-year, total long-term assets of CES decreased by $222.9 million to $497.0 million, as at June 30, 2020 down from $720.0 million, as at December 31, 2019. This decrease is primarily attributed to goodwill impairment of $248.9 million recorded in Q1 2020. This decrease is partially offset by the Company's USD denominated long-term assets which were positively impacted by the appreciation of the USD versus CAD on June 30, 2020, compared to December 31, 2019.

Long-Term Financial Liabilities
CES had long-term debt totaling $285.4 million, as at June 30, 2020, compared to $362.8 million at December 31, 2019, a decrease of $77.4 million. The decrease was primarily driven by decreased borrowings on the Senior Facility during the period, due to working capital harvest experienced by the Company. 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
During the six months ended June 30, 2020, CES paid rent of $0.03 million (2019 - $0.03 million) 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.

QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Revenue								
United States	**121,819**	227,958	217,427	227,282	236,776	224,892	239,754	227,100
Canada	**37,674**	121,489	98,134	88,489	76,161	108,096	108,151	111,411
Revenue	**159,493**	349,447	315,561	315,771	312,937	332,988	347,905	338,511
Net (loss) income	**(24,911)**	(225,720)	11,910	7,637	8,361	2,198	15,467	5,859
per share– basic	***(0.09)***	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*	*0.06*	*0.02*
per share– diluted	***(0.09)***	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*	*0.06*	*0.02*
Adjusted EBITDAC [(1)]	**8,173**	51,132	39,653	42,233	41,528	43,713	42,074	45,550
per share– basic	***0.03***	*0.19*	*0.15*	*0.16*	*0.16*	*0.16*	*0.16*	*0.17*
per share– diluted	***0.03***	*0.19*	*0.15*	*0.15*	*0.15*	*0.16*	*0.15*	*0.17*
Dividends declared	—	2,948	3,970	3,984	3,993	3,995	3,994	4,012
per share	—	*0.0113*	*0.0150*	*0.0150*	*0.0150*	*0.0150*	*0.0150*	*0.0150*
Shares Outstanding								
End of period	**264,883,808**	262,026,924	263,956,291	265,647,874	265,738,759	266,968,576	265,886,609	267,791,315
Weighted average – basic	**263,715,927**	262,711,372	265,214,700	265,762,689	266,719,773	266,141,659	266,932,999	268,119,617
Weighted average – diluted	**263,715,927**	262,711,372	271,779,891	272,971,478	273,085,762	272,078,943	273,294,794	275,502,020

[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.

In Q2 2020, Canadian activity levels were impacted by the aforementioned seasonality effects, however, the activity declines experienced in the quarter were further amplified by COVID-19 related economic slowdown.

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**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: net unamortized debt issue costs	**(4,889)**	(5,510)
Long-term debt	**285,359**	362,785

CES' financial results included herein demonstrate the Company's resiliency in a rapidly changing, unprecedented and difficult market, and emphasize the Company's ability to execute on set goals through the downturn as it relates to balance sheet strength, liquidity, working capital harvest and cost structure. Despite the challenges presented by the current economic environment, CES' overall liquidity position and balance sheet strength improved in the second quarter, as the Company once again displayed its defensible business model and counter cyclical balance sheet at low points of the cycle. Using cash flow generated through working capital harvest in the quarter, the Company was able to reduce it's Senior Facility net draw from $92.9 million at March 31, 2020 to $0.3 million at June 30, 2020, and was also able to repurchase $1.0 million in outstanding Senior Notes.

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 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 $170.0 million on the Canadian facility and US$50.0 million on the US facility. As at June 30, 2020, the Company had a net draw of $0.3 million on the Senior Facility (December 31, 2019 - $76.7 million), with capitalized transaction costs of $0.5 million (December 31, 2019 - $0.6 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. 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 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 Company's debt covenant calculations, as at June 30, 2020 and December 31, 2019, are as follows:

	As at	
$000s	**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 $1.0 million of its Senior Notes for an aggregate purchase price of $0.9 million resulting in a gain of $0.1 million and an associated annualized interest expense reduction of $0.06 million. At June 30, 2020, the Company had $290.0 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 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 $6.0 million and $12.9 million, respectively (2019 - $7.3 million and $14.8 million, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Other Indebtedness

The following table details the remaining contractual maturities of the Company's financial liabilities as of June 30, 2020:

	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	53,658	—	—	—	—	**53,658**
Income taxes payable	—	808	—	—	—	**808**
Senior Facility	—	—	—	294	—	**294**
Senior Notes (2)	—	—	—	289,954	—	**289,954**
Interest on Senior Notes	—	18,485	18,485	46,211	—	**83,181**
Lease obligations (3)	3,533	19,895	11,895	5,149	1,653	**42,125**
Commitments (4)	833	1,965	202	49	—	**3,049**
	58,024	41,153	30,582	341,657	1,653	**473,070**

[1]Payments denominated in foreign currencies have been translated using the June 30, 2020 exchange rate.
[2] The Senior Notes are due on October 21, 2024.
3 Lease obligations reflect principal payments and excludes any associated interest portion.
[4] Commitments include amounts relating to short-term leases, leases of low-value assets, variable payments associated with long-term leases, and capital commitments.

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 months ended June 30, 2020 and 2019:

	Three Months Ended June 30,			Six Months Ended June 30,		
$000's	**2020**	2019	Change	**2020**	2019	Change
Net cash provided by (used in)						
Operating Activities	**104,028**	63,428	40,600	**116,365**	115,263	1,102
Investing Activities	**(3,264)**	(9,924)	6,661	**(15,046)**	(21,841)	6,796
Financing Activities	**(100,764)**	(53,504)	(47,260)	**(101,319)**	(93,422)	(7,897)

Cash Flows from Operating Activities

For the three months ended June 30, 2020, cash flow from operating activities was an inflow of $104.0 million, compared to $63.4 million during the three months ended June 30, 2019, with the increase being primarily driven by decreased levels of working capital in Q2 2020 compared to Q2 2019 on account of decreased activity levels in the period.

Cash Flows from Investing Activities

For Q2 2020, net cash outflows from investing activities totaled $3.3 million, as compared to the outflow of $9.9 million from investing activities during Q2 2019, with the decrease being reflective of the Company's reduction in capex year over year. In Q2 2020, total investment in property and equipment was $5.1 million versus $11.5 million in Q2 2019. Details of cash used for investment in property and equipment are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000's	**2020**	2019	**2020**	2019
Expansion Capital [(1)]	**3,882**	7,702	**10,722**	15,567
Maintenance Capital [(1)]	**1,178**	3,841	**6,699**	5,378
Total investment in property and equipment	**5,060**	11,543	**17,421**	20,945
Change in non-cash investing working capital	**492**	444	**928**	3,700
Cash used for investment in property and equipment	**5,552**	11,987	**18,349**	24,645

[1]*Refer to the "Operational Definitions" for further detail.*

For Q2 2020, $5.6 million of cash was used for investment in property and equipment compared to $12.0 million for the three months ended June 30, 2019. Notable Expansion Capital expenditures in Q2 2020 include: $2.1 million of buildings, vehicles, trucks and transportation equipment, processing equipment and field equipment to support the expansion of operations and lab capabilities just outside of Midland, Texas. Notable Maintenance Capital additions during Q2 2020 include: $1.0 million for tanks, warehouse equipment, processing equipment and field equipment to support logistics as certain customers started bringing shut-in production back on-stream in June.

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 the current economic climate and related capital needs, the Company has suspended all non-essential capital expenditures and currently expects 2020 capital expenditures to be up to $30.0 million, of which $15.0 million is expansion and $15.0 million is maintenance. CES will adjust these levels as required as industry and business conditions continue to unfold.

Cash Flows from Financing Activities
For Q2 2020, cash flows from financing activities was an outflow of $100.8 million compared to $53.5 million in Q2 2019. This year-over-year change is primarily due to the cash used to repay outstanding borrowings on the Senior Facility in the quarter.

Dividend Policy
In an effort to preserve the Company's balance sheet strength in the current low commodity price environment, the Company reduced its monthly dividend on March 12, 2020 from $0.06 per share to $0.015 per share on an annualized basis. As industry conditions continued to deteriorate materially, CES suspended its monthly dividend on April 16, 2020. This decision will conserve approximately $16.0 million on an annualized basis.

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 has suspended its monthly dividend to shareholders. In addition, with the ongoing uncertainty in global oil and gas markets, CES also suspended repurchases under its NCIB program in the second quarter and will revisit utilizing the renewed NCIB program as industry conditions continue to unfold and as our share price remains at these currently attractive levels.

The suspension of CES' dividend and NCIB program, accompanied by several cost reduction initiatives, will help to 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.

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

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
January	Jan 31	Feb 15	$0.005	**1,311**
February	Feb 28	Mar 13	$0.005	**1,309**
March	Mar 29	Apr 15	$0.001	**328**
Total dividends declared			$0.011	**2,948**

CES calculates 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 June 30,		Six Months Ended June 30,	
$000's	**2020**	2019	**2020**	2019
Cash provided by operating activities	**104,028**	63,428	**116,365**	115,263
Adjust for:				
Change in non-cash operating working capital	**(103,736)**	(32,614)	**(71,548)**	(48,155)
Less: Maintenance Capital (2)	**(1,178)**	(3,841)	**(6,699)**	(5,378)
Distributable Earnings (1)	**(886)**	26,973	**38,118**	61,730
Dividends declared	**—**	3,993	**2,948**	7,988
Dividend Payout Ratio (1)	**— %**	15 %	**8 %**	13 %

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

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

	August 13, 2020	June 30, 2020	December 31, 2019
Common shares outstanding	265,002,238	264,883,808	263,956,291
Restricted Share Unit Plan ("RSU")	8,894,539	9,053,543	6,411,540
Share Rights Incentive Plan ("SRIP")	5,872,045	5,882,845	9,787,645
Phantom Share Unit Plan ("PSU")	4,829,781	4,829,781	—

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. 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.

NCIB
On July 16, 2020, the Company announced the renewal of its previous NCIB which ended on July 16, 2019. Under the renewed NCIB, effective July 21, 2020, the Company may 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. There were no purchases made under the NCIB program in Q2 2020. A summary of the Company's NCIB program for the six months ended June 30, 2020 and the year ended December 31, 2019 is as follows:

$000s except for share and per share amounts	**Three Months Ended June 30, 2020**	Three Months Ended March 31, 2020	Year Ended December 31, 2019
Number of shares	—	2,325,277	5,801,703
Cash outlay	—	4,805	13,146
Average price per share	**NM**	$2.07	$2.27

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, 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 includes government relief subsidies received to help mitigate the impact of the COVID-19 pandemic. 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 June 30,		Six Months Ended June 30,	
$000s	**2020**	2019	**2020**	2019
Net (loss) income	**(24,911)**	8,361	**(250,631)**	10,559
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**13,471**	13,746	**27,451**	26,432
Depreciation on property and equipment in G&A	**2,199**	1,576	**4,412**	4,155
Amortization on intangible assets in G&A	**3,962**	4,289	**7,821**	8,906
Current income tax expense	**627**	748	**966**	1,640
Deferred income tax (recovery) expense	**207**	(2,810)	**(14,486)**	5,022
Stock-based compensation	**2,479**	4,765	**6,053**	10,465
Finance costs	**6,150**	7,755	**12,483**	14,952
Other (income) loss	**(12)**	135	**(574)**	147
Impairment of goodwill	**—**	—	**248,905**	—
EBITDAC	**4,172**	38,565	**42,400**	82,278
Add back (deduct):				
Inventory valuation write-downs	**1,215**	—	**12,283**	—
Additional bad debt allowance	**1,455**	—	**2,586**	—
Executive severance and management transition	**—**	2,963	**—**	2,963
Restructuring costs	**1,331**	—	**2,036**	—
Adjusted EBITDAC	**8,173**	41,528	**59,305**	85,241

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.

Adjusted 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, as well as adjusted for specific items that are considered to be non-recurring in nature. 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.

Adjusted Gross Margin (excluding depreciation) is calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
$000s	**2020**	2019	**2020**	2019
Gross Margin	**21,082**	69,388	**88,749**	138,543
as a percentage of revenue	**13 %**	22 %	**17 %**	21 %
Add back (deduct):				
Depreciation included in cost of sales	**13,471**	13,746	**27,451**	26,432
Inventory valuation write-downs	**1,215**	—	**12,283**	—
Restructuring costs	**1,021**	—	**1,415**	—
Adjusted Gross Margin (excluding depreciation)	**36,789**	83,134	**129,898**	164,975
as a percentage of revenue	**23 %**	27 %	**25 %**	26 %

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 June 30,		Six Months Ended June 30,	
$000's	**2020**	2019	**2020**	2019
General and administrative expenses	**39,021**	55,199	**92,086**	106,223
as a percentage of revenue	**24 %**	18 %	**18 %**	16 %
Deduct non-cash charges and non-recurring items:				
Stock-based compensation	**2,479**	4,765	**6,053**	10,465
Depreciation & amortization	**6,161**	5,865	**12,233**	13,061
Executive severance and management transition	—	2,963	—	2,963
Additional bad debt allowance	**1,455**	—	**2,586**	—
Restructuring costs	**310**	—	**621**	—
Adjusted General and Administrative Costs	**28,616**	41,606	**70,593**	79,734
as a percentage of revenue	**18 %**	13 %	**14 %**	12 %

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 June 30,		Six Months Ended June 30,	
$000s	**2020**	2019	**2020**	2019
Cash provided by operating activities	**104,028**	63,428	**116,365**	115,263
Adjust for:				
Change in non-cash operating working capital	**(103,736)**	(32,614)	**(71,548)**	(48,155)
Funds Flow From Operations	**292**	30,814	**44,817**	67,108

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, Net Debt and Total Debt are calculated as follows:

	As at	
$000's	**June 30, 2020**	December 31, 2019
Long-term financial liabilities[(1)]	**304,056**	385,865
Current portion of finance lease obligations	**23,428**	21,766
Total Debt	**327,484**	407,631
Deduct Working Capital Surplus:		
Current assets	**355,910**	499,820
Current liabilities[(2)]	**(54,466)**	(130,192)
Working Capital Surplus	**301,444**	369,628
Net Debt	**26,040**	38,003

[1]*Includes long-term portion of the Senior Facility, the Senior Notes, and lease obligations.*
[2]*Excludes current portion of lease liabilities.*

OPERATIONAL DEFINITIONS

Operational terms used throughout this MD&A include:

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

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

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

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

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

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 condensed consolidated financial statements and the reported amounts of revenue and expenses for the period. 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. The most significant estimates in CES' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2019, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2019, and in Note 3 of the condensed consolidated financial statements for the three and six months ended June 30, 2020.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies can be found in Note 3 of the annual consolidated financial statements for the year ended December 31, 2019 and Note 3 of the Company's unaudited condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2020 and 2019.

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.

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 IFRS. There have been no changes to CES' internal controls over financial reporting during the three and six months ended June 30, 2020 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 23, 2020 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' Q2 2020 financial results described herein demonstrated the Company's capabilities in the markets in which the Company operates along with a proven defensible balance sheet and business model through periods of low activity levels. The 2020 results herein are a direct impact of COVID-19 and the current low oil price environment, which deteriorated significantly throughout the second quarter. To the extent this low oil price environment continues or deteriorates further, the North American oil and gas industry will continue to face significant headwinds. CES has undertaken significant steps to rationalize its cost structure and will take additional appropriate actions as necessary.

CES continued to ensure the ongoing safety of our employees and to maintain delivery of products and services to our customers while managing the impacts of the COVID-19 pandemic. We also continued to implement additional safety measures which included social distancing protocols at all Company locations; restricting external visitors; restricting all non-essential business-related travel; enhancing our workplace cleaning practices; conducting virtual meetings with our customers, stakeholders, and external parties; and working from home strategies for employees where possible. Our health and safety teams across North America continue to closely monitor the rapidly changing situation and directions from government health authorities to ensure the safety of our employees and the public and the reliability of our operations.

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, tornadoes, 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, however a material reduction in the demand for oil and gas may impact the demand for consumable chemicals as operators shut-in production. In addition, 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 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 April 2020, would likely affect oil and natural gas production levels and therefore continue to 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 remaining US goodwill balance, and the recognition of the Company's deferred tax assets.

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 saw strong economic growth prior to COVID-19 disruptions, 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 June 30, 2020, 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 (including as a result of the COVID-19 pandemic), 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 make up the majority of CES' business. 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 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; CES' ability to execute on financial goals relating to its balance sheet, liquidity, working capital and cost structure; expectations regarding CES' ability to qualify and participate in the Canadian Government's CEWS program; the expectation that cash interest costs and maintenance capital will be funded from available cash or through CES' credit facilities; future estimates as to dividend levels; the business strategy regarding cash dividend payments in the future; the amount of cash to be conserved based on the suspension of the dividend 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 Midland, Texas lab facilities; 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 regarding end markets for production chemicals and drilling fluids in Canada and the US including anticipated volatility throughout 2020; expectations regarding the demand for oil and natural gas, reduced capital expenditures by CES' customers and the quantum of shut-in production by CES' customers as a result of the COVID-19 pandemic and production decisions from OPEC+ members and the corresponding impact on oil and natural gas prices; expectations regarding the diversification of operations away from the drill-bit; expectations regarding demand for CES' services and technology; expectations that competitor consolidation and business failures will create opportunities for CES in a recovery; 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, downturn in oilfield activity; the severity of the 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; the degree and severity of the COVID-19 pandemic, including government laws and regulations implemented in response to the pandemic and the resulting impact on the demand for oil and natural gas; government support programs implemented in response to the COVID-19 pandemic and potential changes to the qualification criteria and amount of available support; political and societal unrest that may impact CES' operations as well as impact the market for oil and natural gas generally; 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.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

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Thomas J. Simons

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

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Chief Operating Officer & President, Canadian Operations

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President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

James M. Pasieka
Corporate Secretary

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