CES Energy Solutions

Q3

Three and Nine Months Ended September 30, 2020 as at November 12, 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 nine months ended September 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 November 12, 2020, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

USE OF NON-GAAP MEASURES

This MD&A contains certain financial measures that are not recognized by Canadian generally accepted accounting principles ("GAAP"), and which are used by management to evaluate the performance of CES and its business segments. Since certain non-GAAP financial measures do not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. Please refer to the section titled NON-GAAP MEASURES on page 20 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 AND IMPACT OF COVID-19

During the third 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. Global commodity prices fell sharply in mid-March, and conditions continued to deteriorate throughout the second quarter of 2020, resulting in temporary production shut-ins and reduced drilling and completion activity in all major basins in North America. CES' Q3 2020 financial results included herein demonstrate our resiliency in a rapidly changing, unprecedented and difficult market, along 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 continued to improve in the third quarter, as the Company once again displayed its defensible business model and counter cyclical balance sheet at low points of the cycle. CES exited the quarter with a net cash position of $29.4 million and an undrawn Senior Facility with full availability of $236.7 million, driven by strong cash flow generation achieved through a combination of working capital harvest, continued inventory management and cost containment measures. Demonstrating the Company's disciplined approach to protecting its balance sheet through the downturn, CES has been able to reduce Total Debt, net of cash from $426.6 million at March 31, 2020 to $292.4 million at September 30, 2020, of which $289.0 million relates to the Company's Senior Notes which don't mature until October 21, 2024.

Although global commodity prices saw some increased stability throughout the third quarter when compared to the second quarter of 2020, the COVID-19 pandemic is still ongoing and future impacts remain highly uncertain. The Company remains cognizant of the potential 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 current economic climate has or may have significant adverse impacts to CES, including but not limited to: material declines in revenue and cash flows due to reduced drilling, completion and production volumes and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for incremental impairment charges on long-term assets, and additional restructuring charges as CES will continue to take necessary steps to reduce its cost structure, if required.

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 a temporary suspension of normal course issuer bid ("NCIB") activity in the second quarter. Further, the Company applied and qualified for the Federal Government's Canada Emergency Wage Subsidy ("CEWS"). During the three and nine months ended September 30, 2020, the Company recognized CEWS program benefits in the amount of $5.6 million and $11.8 million, respectively, as a reduction to wage expense with $2.9 million and $6.2 million allocated to cost of sales, for the respective periods, and $2.7 million and $5.6 million allocated to general and administrative expenses, for the respective periods. 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, and CES is encouraged by the Federal Government's planned extension of the program until June of 2021.

Operationally, the Company has fortunately managed to experience minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. Given that CES is generally considered to be an essential service provider in all regions in which the Company operates in, CES' operations have been and continue to remain open and fully operating. Furthermore, CES' vertical integration, inventory management processes, and strong vendor relationships have resulted in minimal supply chain constraints and disruptions during the pandemic. A number of additional safety measures have also been implemented throughout the Company's operations, both in the field and in office or warehouse settings, to ensure the ongoing safety of our employees and our customer's employees, and to maintain delivery of products and services to our customers while respecting recommendations from global and local health authorities.

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. CES remains committed to the 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.

FINANCIAL HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
($000s, except per share amounts)	**2020**	2019	%Change	**2020**	2019	%Change
Revenue						
United States	**113,859**	227,282	(50)%	**463,636**	688,950	(33)%
Canada	**52,434**	88,489	(41)%	**211,597**	272,746	(22)%
Total Revenue	**166,293**	315,771	(47)%	**675,233**	961,696	(30)%
Net (loss) income	**(12,725)**	7,637	nmf	**(263,356)**	18,196	nmf
per share – basic	***(0.05)***	*0.03*	nmf	***(1.00)***	*0.07*	nmf
per share - diluted	***(0.05)***	*0.03*	nmf	***(1.00)***	*0.07*	nmf
Adjusted EBITDAC(2)	**18,212**	42,233	(57)%	**77,517**	127,474	(39)%
Adjusted EBITDAC(2) % of Revenue	***11.0 %***	*13.4 %*	(2.4)%	***11.5 %***	*13.3 %*	(1.8)%
Cash provided by operating activities	**40,300**	30,586	32 %	**156,665**	145,849	7 %
Funds Flow From Operations(2)	**10,342**	33,667	(69)%	**55,159**	100,775	(45)%
Capital expenditures						
Expansion Capital(2)	**2,604**	7,839	(67)%	**13,326**	23,406	(43)%
Maintenance Capital(2)	**532**	1,649	(68)%	**7,231**	7,027	3 %
Total capital expenditures	**3,136**	9,488	(67)%	**20,557**	30,433	(32)%
Dividends declared	—	3,984	(100)%	**2,948**	11,972	(75)%
per share	—	*0.0150*	(100)%	***0.0113***	*0.0450*	(75)%
Common Shares Outstanding						
End of period	**262,567,958**	265,647,874		**262,567,958**	265,647,874	
Weighted average - basic	**264,841,429**	265,762,689		**263,760,203**	266,206,652	
Weighted average - diluted	**264,841,429**	272,971,478		**263,760,203**	272,874,517	

	As at						
Financial Position ($000s)	**September 30, 2020**	June 30, 2020	%Change	March 31, 2020	%Change	December 31, 2019	%Change
Total assets	**838,270**	852,955	(2)%	1,072,067	(22)%	1,219,772	(31)%
Long-term financial liabilities(1)	**300,370**	304,056	(1)%	402,036	(25)%	385,865	(22)%
Total Debt, net of cash(2)	**292,397**	327,484	(11)%	426,560	(31)%	407,631	(28)%
Working Capital Surplus(2)	**266,897**	301,444	(11)%	417,291	(36)%	369,628	(28)%
Net Debt(2)	**25,500**	26,040	(2)%	9,269	175 %	38,003	(33)%
Shareholders' equity	**443,054**	468,581	(5)%	515,446	(14)%	679,310	(35)%

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

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

- CES' third quarter results are reflective of extremely difficult industry conditions with reduced activity levels across all operating divisions and margin compression from pricing pressure. 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 second quarter, remained disciplined in the third 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 68% of the Company's overall revenue in Q3 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 in Q3 2020 as compared to Q3 2019, CES has been able to maintain and grow its commitment to a strong and high quality customer base in both operating regions. More specifically, during the third quarter, CES was successful in increasing its US Drilling Fluids Market Share to 17%, a record for the Company and up from 13% in Q3 2019 and the previous record of 15% in Q1 2020.

- As at September 30, 2020, CES had a Working Capital Surplus of $266.9 million, which represents a $34.5 million reduction from $301.4 million at June 30, 2020, and a $150.4 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 eighteen months. Through the pandemic, CES has benefited greatly from the high quality of its customers and diligent internal credit monitoring processes. As a result, CES has managed to maintain a strong collection record and has minimized accounts receivable losses, recording only $3.1 million in credit loss provisions to date in 2020, representing less than 0.5% of revenue during the nine months ended September 30, 2020. With the working capital harvest in the third quarter, CES generated $40.3 million in cash provided by operating activities and was able to repay all remaining outstanding draws on the Company's Senior Facility. While CES' counter-cyclical leverage model provides the Company with significant balance sheet protection through a downtown, the Company continued to generate positive Funds Flow From Operations in both the second and third quarters of 2020 in this low commodity price environment, which excludes the impact of working capital release and is reflective of the Company's cost rationalization efforts and marginally improved market conditions in the quarter.

- CES exited the quarter with a net cash balance of $29.4 million, an undrawn Senior Facility, and Total Debt, net of cash, of $292.4 million, of which $289.0 million relates to the Company's Senior Notes which don't mature until October 21, 2024 (December 31, 2019 - net cash of $nil, net draw of $76.7 million and Total Debt of $407.6 million). CES' Senior Facility was fully accessible at September 30, 2020 with a maximum available draw of $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 September 30, 2020, industry activity continued to improve from trough levels seen earlier in the year, in both production chemical and drilling fluids end markets, requiring the Company to make modest investments in working capital and as at the date of this MD&A, the Company retained a net cash balance of approximately $23.0 million and an undrawn, fully accessible Senior Facility.

- As previously disclosed, 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 Q3 2020, CES incurred $3.1 million in capital expenditures, representing a 67% decrease from $9.5 million in Q3 2019 and a 39% decrease from $5.1 million in Q2 2020. Year-to-date, CES incurred $20.6 million in capital expenditures, representing a decrease of 32% year over year. Current quarter capital expenditures are primarily comprised of the expansion of the lab capabilities just outside of Midland, Texas, and other processing equipment expenditures primarily associated with the production chemical business. 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 temporarily 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. During Q3 2020, the Company opportunistically repurchased 2,633,400 common shares at an average price of $0.90 per share for a total amount of $2.4 million. Since inception of the Company's NCIB programs and up to September 30, 2020, the Company has repurchased 15,560,280 common shares at an average price of $2.56 per share for a total amount of $39.8 million.

- In the third quarter, CES generated revenue of $166.3 million, a decrease of $149.5 million or 47% compared to $315.8 million in revenue for Q3 2019. For the nine months ended September 30, 2020, CES generated revenue of $675.2 million, a decrease of $286.5 million or 30% from $961.7 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 temporary production shut-ins, deferred completions and significant declines in drilling activity in North America.
  - Revenue generated in the US in Q3 2020 was $113.9 million compared to $227.3 million in Q3 2019, a decrease of $113.4 million or 50%. US revenues in the quarter were negatively impacted by lower activity levels across all operating divisions. US land drilling activity fell by 73% from Q3 2019 to Q3 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 increase its US Drilling Fluids Market Share to 17%, up from 13% in both Q3 2019 and Q2 2020. Year over year, production related volumes were also down significantly, however, sequentially, the Company benefited from the reversal of certain production shut-ins which partially offset the impact of lower drilling fluids activity quarter over quarter.
  - Revenue generated in Canada decreased 41% to $52.4 million in Q3 2020 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. Sequentially, the Company benefited from increased production volumes and a seasonal uptick in activity levels, however peak drilling activity levels were considerably lower than previous year highs 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 cost containment initiatives executed by the Company to right-size the business for the current environment, CES recorded the following items during the three and nine months ended September 30, 2020 which negatively impacted net income and EBITDAC and are considered to be non-recurring:
  - Within cost of sales, the Company recorded $nil and $12.3 million, respectively, of inventory write-downs as certain commodity based products were revalued to net realizable value to reflect the commodity price environment at the time of the revaluation;
  - Within general and administrative expenses, the Company recorded $0.5 million and $3.1 million, respectively, in additional bad debt allowances; and
  - Within cost of sales and general and administrative expenses, the Company recorded $0.4 million and $2.4 million, respectively, in restructuring costs.

  Excluding the items noted above, CES achieved Adjusted EBITDAC of $18.2 million in Q3 2020, compared to $42.2 million in Q3 2019. For the nine months ended September 30, 2020, CES achieved Adjusted EBITDAC of $77.5 million compared to $127.5 million for the respective 2019 period. Year over year, CES' Adjusted EBITDAC as a percentage of revenue was negatively impacted by reduced activity levels and persistent pricing pressure in the current low commodity price environment, resulting in margin compression. Sequentially, Adjusted EBITDAC as a percentage of revenue of 11.0% achieved in Q3 2020 represented a significant improvement from the 5.1% recorded in Q2 2020 as the Company recognized a full quarter of cost rationalization efforts in the third quarter, and further benefitted from the reversal of certain production shut-ins in both the US and Canada.

- Net loss for Q3 2020 was $12.7 million, compared to net income of $7.6 million in Q3 2019. Net income decreased from Q3 2019 to Q3 2020 primarily due to the factors outlined above, offset by lower interest expense due to lower debt levels, recognition of $5.6 million benefit from the CEWS program, and a reduction in stock based compensation expense. For the nine months ended September 30, 2020, net loss was $263.4 million compared to net income of $18.2 million for the nine months ended September

30, 2019. For the nine 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 nine months ended September 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 cautious with its 2020 outlook and expects significantly reduced upstream activity across North America, reduced production levels, deferred completions, downward pressure on margins, further industry consolidation, 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 temporarily 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 and third quarters of 2020, CES applied for and received funding from the Canadian Federal Government's CEWS program, recognizing an aggregate benefit of $11.8 million, thereby mitigating further personnel reductions while we navigate through this downturn. Further, in the September 23, 2020 Throne Speech from the Government of Canada, it was announced that the CEWS program would be extended until June 2021. While details regarding the program require further clarification, CES expects to continue to participate in the program through the duration of its extension as applicable.

CES believes it will benefit from its asset light, 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 experienced 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. From Q1 2020 to Q3 2020, CES has again demonstrated its financial resiliency with positive Funds Flow from Operations, and a $133.7 million working capital harvest resulting in an undrawn and fully accessible Senior Facility and a positive net cash balance of $29.4 million as at September 30, 2020. Currently, the Company's Senior Facility continues to remain undrawn and the Company has a net cash balance of $23.0 million.

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, a 40% reduction from the original 2020 capex plan of $50.0 million. CES will continue its disciplined and prudent approach to capital expenditures and is currently reviewing 2021 planned expenditures which will be adjusted as required as conditions continue to unfold.

CES continues to believe that coming out of this downturn it can continue to 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 continue to use 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 September 30,			Nine Months Ended September 30,		
$000s	**2020**	2019	% Change	**2020**	2019	% Change
United States	**113,859**	227,282	(50)%	**463,636**	688,950	(33)%
Canada	**52,434**	88,489	(41)%	**211,597**	272,746	(22)%
	166,293	315,771	(47)%	**675,233**	961,696	(30)%

	Key Operating Metrics					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	**2020**	2019	% Change
US	**28,825**	30,220	(5)%	**29,469**	30,003	(2)%
Canada	**5,427**	7,737	(30)%	**6,301**	7,943	(21)%
Total Treatment Points (1)	**34,252**	37,957	(10)%	**35,770**	37,946	(6)%
US	**3,823**	10,750	(64)%	**18,779**	33,487	(44)%
Canada	**1,643**	4,832	(66)%	**9,922**	13,615	(27)%
Total Operating Days (1)	**5,466**	15,582	(65)%	**28,701**	47,102	(39)%
US	**42**	117	(64)%	**69**	123	(44)%
Canada	**18**	53	(66)%	**37**	50	(26)%
Total Average Rig Count(1)	**60**	170	(65)%	**106**	173	(39)%
US industry rig count(2)	**241**	894	(73)%	**459**	964	(52)%
Canadian industry rig count(3)	**53**	147	(64)%	**93**	139	(33)%
US DF Market Share	**17%**	13 %	4 %	**15 %**	13 %	2 %
Canadian DF Market Share	**34%**	36 %	(2)%	**40 %**	36 %	4 %

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.*

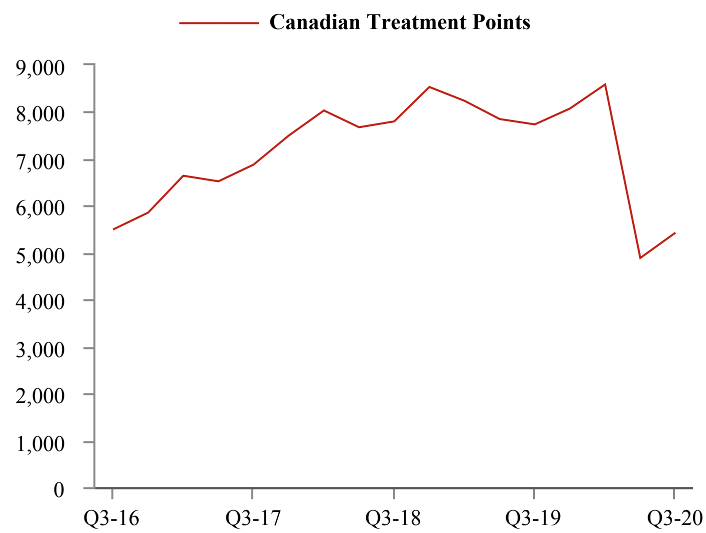
Revenues in 2020 for the US and Canada were negatively affected by reduced industry activity levels, temporary production shut-ins, and pricing pressure from customers. In the first two months of the year, CES' infrastructure and capabilities capitalized on relatively stronger industry conditions and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

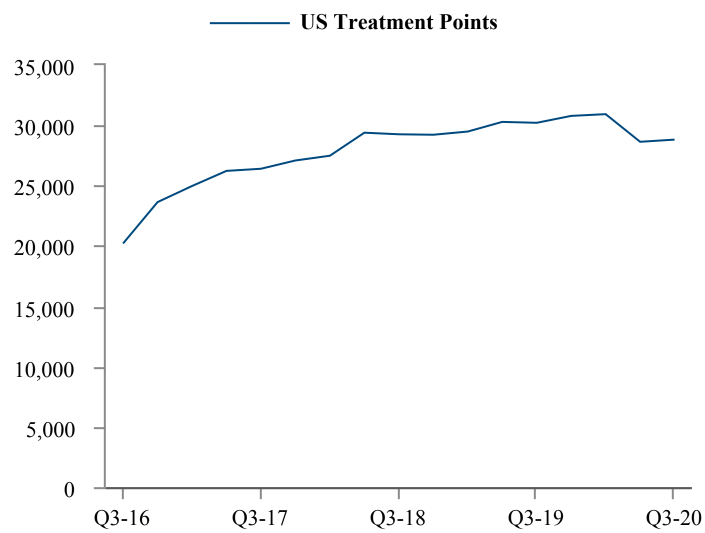
US average rig count decreased 64% to 42 rigs in Q3 2020 compared to 117 in Q3 2019 and US Operating Days were also down 64% for the comparable periods. Despite the significant decline in industry activity and US Operating Days, the Company's US DF Market Share increased to 17%, a record for the Company and up from 13% in Q3 2019 and the previous record of 15% in Q1 2020. Although US Treatment Points decreased only slightly 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. Sequentially, CES saw improving US Treatment Points as some customers reversed shut-in decisions and production chemical volumes increased slightly as a result.

CES' Canadian operations improved sequentially over Q2 2020 due to seasonal improvements in drilling activity and the reversal of some temporary production shut-ins during Q3 2020, the effects of which were mitigated by the continued COVID-19 related global economic slowdown and the extremely low commodity price environment. Year over year, the Canadian industry rig count decreased by 64% from 147 to 53 rigs as customers curtailed spending and deferred completions, and correspondingly, the Company saw a 66% decrease in Canadian Operating Days from Q3 2019 to Q3 2020. Canadian Treatment Points declined by 30% year over year as production volumes remained low 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 and Q3 2020 have 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 nine months ended September 30, 2020 is $0.9 million and $3.3 million, respectively (2019 - $2.3 million and $5.7 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. Year over year, the decline in Clear's revenue is attributable to the decrease in industry drilling activity in Canada in 2020 versus 2019 as a result of the low commodity price environment. 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 September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Top five customers as a % of total revenue	**22 %**	29 %	**23 %**	29 %
Top customer as a % of total revenue	**8 %**	13 %	**11 %**	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 September 30,			Nine Months Ended September 30,		
$000s	**2020**	2019	Change	**2020**	2019	Change
Gross Margin	**32,382**	68,701	(36,319)	**121,131**	207,244	(86,113)
as a percentage of revenue	**19 %**	22 %	(3)%	**18 %**	22 %	(4)%
Add back (deduct):						
Depreciation included in cost of sales	**12,441**	12,729	(288)	**39,892**	39,161	731
Inventory valuation write-downs	**—**	—	—	**12,283**	—	12,283
Restructuring costs	**108**	—	108	**1,523**	—	1,523
Adjusted Gross Margin (excluding depreciation)[1]	**44,931**	81,430	(36,499)	**174,829**	246,405	(71,576)
as a percentage of revenue	**27 %**	26 %	1 %	**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 nine months ended September 30, 2020, which negatively impacted Gross Margin and are considered to be non-recurring:

- The Company recorded $nil and $12.3 million, respectively, of inventory write-downs as certain commodity based products were revalued to net realizable value to reflect the commodity price environment at the time of the revaluation; and
- Within cost of sales, the Company recorded $0.1 million and $1.5 million, respectively, in restructuring costs.

CES responded to falling activity levels by significantly rationalizing costs and headcount in Canada and the US early in the second quarter. The increase in Adjusted Gross Margin is reflective of the realization of these significant cost reductions taking full effect in Q3 2020, along with the benefit recognized from the CEWS program in the 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. For the three and nine months ended September 30, 2020, CES recorded a $2.9 million and $6.2 million, respectively, benefit from the CEWS program as an offset to compensation costs within cost of sales in the respective periods.

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 September 30,			Nine Months Ended September 30,		
$000s	**2020**	2019	Change	**2020**	2019	Change
General and administrative expenses	**35,970**	48,805	(12,835)	**128,056**	155,028	(26,972)
as a percentage of revenue	**22 %**	15 %	7 %	**19 %**	16 %	3 %
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	**2,540**	3,792	(1,252)	**8,593**	14,257	(5,664)
Depreciation & amortization	**5,905**	5,816	89	**18,138**	18,877	(739)
Executive severance and management transition	**—**	—	—	**—**	2,963	(2,963)
Additional bad debt allowance	**541**	—	541	**3,127**	—	3,127
Restructuring costs	**265**	—	265	**886**	—	886
Adjusted General and Administrative Costs	**26,719**	39,197	(12,478)	**97,312**	118,931	(21,619)
as a percentage of revenue	**16 %**	12 %	4 %	**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 nine months ended September 30, 2020, which negatively impacted G&A expenses and are considered to be non-recurring:

- The Company recorded $0.5 million and $3.1 million, respectively in additional bad debt allowances; and
- The Company recorded $0.3 million and $0.9 million, respectively in restructuring costs.

On an absolute basis, general and administrative expenses decreased over the comparable 2019 periods as a number of cost cutting measures implemented by the Company early in the second quarter with respect to compensation and discretionary expenses took full effect in Q3 2020. Further, CES recorded a $2.7 million and $5.6 million benefit for the three and nine months ended September 30, 2020, respectively, from the CEWS program as an offset to compensation costs within G&A. As a percentage of revenue, general and administrative expenses has increased for Q3 2020 and year-to-date, as compared with the same periods 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 33% and 40%, respectively, for the three and nine months ended September 30, 2020, in comparison to the same periods in 2019, as a result of the timing of equity-based and cash-based grants under the Company's stock-based compensation plans and the reduced price of the Company's common shares year over year.

Finance Costs

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s	**2020**	2019	**2020**	2019
Interest on debt, net of interest income	**5,395**	6,548	**17,679**	20,638
Amortization of debt issue costs and premium	**310**	293	**931**	1,008
Foreign exchange gain	**(295)**	(186)	**(193)**	(332)
Financial derivative loss (gain)	**645**	(240)	**241**	17
Gain on repurchase of senior unsecured notes	**(62)**	—	**(182)**	—
Other finance costs	**—**	—	**—**	36
Finance costs	**5,993**	6,415	**18,476**	21,367

Interest expense

Finance costs for the three and nine months ended September 30, 2020 include interest on debt, net of interest income, of $5.4 million and $17.7 million, respectively (2019 - $6.5 million and $20.6 million, respectively). Included in these amounts is interest on the Company's Senior Notes in the amount of $4.7 million and $13.8 million for the three and nine months ended September 30, 2020 down from the comparable 2019 periods of $4.8 million and $14.3 million, respectively, as a result of the repurchases of Senior Notes undertaken during 2020. Further, CES' Senior Facility draw has come down significantly and was undrawn for the duration of the third quarter, resulting in lower interest costs in Q3 2020 versus Q3 2019.

Foreign exchange gains and losses

Finance costs for the three and nine months ended September 30, 2020 include a realized and unrealized net foreign exchange gain of $0.3 million and $0.2 million, respectively (2019 - net gain of $0.2 million and $0.3 million). The net foreign exchange gain during Q3 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 nine months ended September 30, 2020 included a realized and unrealized net derivative loss totaling $0.6 million and $0.2 million, respectively (2019 - net gain of $0.2 million and a net loss of $0.02 million, respectively) relating to the Company’s foreign currency derivative contracts. As of September 30, 2020, the Company had a financial derivative asset of net $0.2 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 September 30, 2020, the Company had US$31.8 million outstanding in CAD forward purchase contracts at a weighted average exchange rate of $1.3348, maturing in October 2020, as a result of a USDCAD swaps entered into in September 2020 which allowed the Company to utilize excess USD cash flow to pay down previously outstanding CAD 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 nine months ended September 30, 2020, income tax expense was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000s	**2020**	2019	**2020**	2019
Current income tax expense	**636**	618	**1,602**	2,258
Deferred income tax expense (recovery)	**2,606**	5,231	**(11,880)**	10,253
Total income tax expense (recovery)	**3,242**	5,849	**(10,278)**	12,511

Current income tax expense decreased year over year due to changes in activity levels. 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' third quarter continued to demonstrate 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 $266.9 million as at September 30, 2020 compared to $369.6 million as at December 31, 2019 and $417.3 million at March 31, 2020. The decrease in Working Capital Surplus at September 30, 2020 is attributable to decreased revenue levels across the Company from Q1 2020 to Q3 2020 resulting in decreased accounts receivable as the Company has maintained a strong collection record throughout the downtown and has collected upon the majority of outstanding balances from the prior quarter, a decline in inventory levels as purchasing has been aligned 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 $1.3339 at September 30, 2020. CES' Total Debt continues to be primarily reflective of working capital investments, and as such, at September 30, 2020, the Company had Net Debt of $25.5 million as compared to $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 September 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 $249.1 million to $470.9 million, as at September 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 September 30, 2020, compared to December 31, 2019.

Long-Term Financial Liabilities
CES had long-term debt totaling $284.4 million, as at September 30, 2020, compared to $362.8 million at December 31, 2019, a decrease of $78.4 million. The decrease was primarily driven by decreased borrowings on the Senior Facility during the period, which was undrawn throughout Q3 2020, 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 three and nine months ended September 30, 2020, CES paid rent of $nil and $0.03 million (2019 - $0.01 million and $0.04 million, respectively) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018
Revenue								
United States	**113,859**	121,819	227,958	217,427	227,282	236,776	224,892	239,754
Canada	**52,434**	37,674	121,489	98,134	88,489	76,161	108,096	108,151
Revenue	**166,293**	159,493	349,447	315,561	315,771	312,937	332,988	347,905
Net (loss) income	**(12,725)**	(24,911)	(225,720)	11,910	7,637	8,361	2,198	15,467
per share– basic	***(0.05)***	*(0.09)*	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*	*0.06*
per share– diluted	***(0.05)***	*(0.09)*	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*	*0.06*
Adjusted EBITDAC (1)	**18,212**	8,173	51,132	39,653	42,233	41,528	43,713	42,074
per share– basic	***0.07***	*0.03*	*0.19*	*0.15*	*0.16*	*0.16*	*0.16*	*0.16*
per share– diluted	***0.07***	*0.03*	*0.19*	*0.15*	*0.15*	*0.15*	*0.16*	*0.15*
Dividends declared	**—**	—	2,948	3,970	3,984	3,993	3,995	3,994
per share	**—**	—	*0.0113*	*0.0150*	*0.0150*	*0.0150*	*0.0150*	*0.0150*
Shares Outstanding								
End of period	**262,567,958**	264,883,808	262,026,924	263,956,291	265,647,874	265,738,759	266,968,576	265,886,609
Weighted average – basic	**264,841,429**	263,715,927	262,711,372	265,214,700	265,762,689	266,719,773	266,141,659	266,932,999
Weighted average – diluted	**264,841,429**	263,715,927	262,711,372	271,779,891	272,971,478	273,085,762	272,078,943	273,294,794

[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.

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**September 30, 2020**	December 31, 2019
Senior Facility	—	77,341
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**288,954**	290,954
	288,954	368,295
Less: net unamortized debt issue costs	**(4,579)**	(5,510)
Long-term debt	**284,375**	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 continued to improve in the third 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 fully repay its outstanding draws on its Senior Facility (net draw of $0.3 million at June 30, 2020; net draw of $92.9 million at March 31, 2020) and exit the quarter with a positive net cash position of $29.4 million, repurchase $1.0 million in outstanding Senior Notes, and repurchase 2,633,400 common shares for $2.4 million at an average price of $0.90 per share under the Company's NCIB program.

Senior Facility

The Company has a syndicated senior facility (the “Senior Facility”) which is comprised of a Canadian facility of $170.0 million and US facility of US$50.0 million. 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 September 30, 2020, the Company's Senior Facility was undrawn (December 31, 2019 - net draw of $76.7 million) and the Company held a positive net cash balance of $29.4 million (December 31, 2019 - $nil). As such, at September 30, 2020, CES' Senior Facility was fully accessible with a maximum draw of $170.0 million on the Canadian facility and US$50.0 million on the US facility.

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

- The ratio of Net Senior Debt to trailing EBITDA must not exceed 2.50:1.00 calculated on a rolling four-quarter basis; and
- The ratio of EBITDA to interest expense must be greater than 2.50:1.00, calculated on a rolling four-quarter basis. At the Company’s option, CES may elect to reduce the EBITDA to interest expense covenant minimum to 1.50:1:00 for three consecutive quarters, and would be subject to an asset coverage test during this reduced interest coverage period if exercised.

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 September 30, 2020 and December 31, 2019, are as follows:

	As at	
$000s	**September 30, 2020**	December 31, 2019
Net Senior Debt	**(4,948)**	107,812
EBITDA for the four quarters ended	**108,351**	159,980
Ratio	**(0.046)**	0.674
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**108,351**	159,980
Interest Expense for the four quarters ended	**23,312**	26,226
Ratio	**4.648**	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 recorded against finance costs and an associated annualized interest expense reduction of $0.06 million. On August 28, 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 $0.06 million recorded against finance costs and an associated annualized interest expense reduction of $0.06 million. At September 30, 2020, the Company had $289.0 million of remaining outstanding principal on its Senior Notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable 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 September 30, 2020, the Company was in compliance with the terms and covenants of its lending agreements. For the three and nine months ended September 30, 2020, the Company recorded $5.7 million and $18.6 million, respectively (2019 - $6.9 million and $21.7 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 September 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	70,526	—	—	—	—	**70,526**
Income taxes payable	—	506	—	—	—	**506**
Senior Notes [2]	—	—	—	288,954	—	**288,954**
Interest on Senior Notes	9,210	9,210	18,421	46,052	—	**82,893**
Lease obligations [3]	3,648	17,780	9,902	4,240	1,578	**37,148**
Commitments [4]	916	1,878	196	—	—	**2,990**
Other long-term liabilities	—	—	169	106	—	**275**
	84,300	29,374	28,688	339,352	1,578	**483,292**

[1]Payments denominated in foreign currencies have been translated using the September 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 September 30, 2020 and 2019:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$000's	**2020**	2019	Change	**2020**	2019	Change
Net cash provided by (used in)						
Operating Activities	**40,300**	30,586	9,714	**156,665**	145,849	10,816
Investing Activities	**(1,060)**	(249)	(811)	**(16,106)**	(22,090)	5,984
Financing Activities	**(9,173)**	(30,337)	21,164	**(110,492)**	(123,759)	13,267

Cash Flows from Operating Activities
For the three months ended September 30, 2020, cash flow from operating activities was an inflow of $40.3 million, compared to $30.6 million during the three months ended September 30, 2019, with the increase being primarily driven by decreased levels of working capital in Q3 2020 compared to Q3 2019 on account of decreased activity levels in the period, offsetting the reduction in net income year over year.

Cash Flows from Investing Activities
For Q3 2020, net cash outflows from investing activities totaled $1.1 million, as compared to the outflow of $0.2 million from investing activities during Q3 2019, with the decrease being reflective of the Company's reduction in capex year over year offset by increased investment in other assets in the current period relating to the Company's investments in its captive insurance company for

its annual insurance renewals. In Q3 2020, total investment in property and equipment was $3.1 million versus $9.5 million in Q3 2019.

Details of cash used for investment in property and equipment are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
$000's	**2020**	2019	**2020**	2019
Expansion Capital [1]	**2,604**	7,839	**13,326**	23,406
Maintenance Capital [1]	**532**	1,649	**7,231**	7,027
Total investment in property and equipment	**3,136**	9,488	**20,557**	30,433
Change in non-cash investing working capital	**158**	(256)	**1,086**	3,444
Cash used for investment in property and equipment	**3,294**	9,232	**21,643**	33,877

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

For Q3 2020, $3.3 million of cash was used for investment in property and equipment compared to $9.2 million for the three months ended September 30, 2019. Notable Expansion Capital expenditures in Q3 2020 include: $0.5 million to support the expansion of operations and lab capabilities just outside of Midland, Texas, and $1.6 million of buildings, vehicles, trucks and transportation equipment, processing equipment and field equipment primarily related to the Company's US production chemical operations. Notable Maintenance Capital additions during Q3 2020 include: $0.5 million for tanks, warehouse equipment, processing equipment and field equipment to support logistics as certain customers started bringing shut-in production back on-stream starting 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 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 plans to continue its disciplined and prudent approach to capital expenditures in 2021 and is currently reviewing planned expenditures which will be adjusted as required as conditions continue to unfold.

Cash Flows from Financing Activities
For Q3 2020, cash flows from financing activities was an outflow of $9.2 million compared to $30.3 million in Q3 2019. This year over year change is primarily due to the decrease in cash used to repay outstanding borrowings on the Senior Facility in the quarter, as the Senior Facility was undrawn during Q3 2020, along with the suspension of the Company's dividend program.

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, conserving 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 temporarily suspended repurchases under its NCIB program in the second quarter. CES resumed NCIB activity in August 2020 to opportunistically repurchase common shares as our share price remained at attractive levels. CES continues to monitor the Company's share price and associated activity levels under the NCIB as industry conditions unfold.

The suspension of CES' dividend, 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
$000's	**2020**	2019	**2020**	2019
Cash provided by operating activities	**40,300**	30,586	**156,665**	145,849
Adjust for:				
Change in non-cash operating working capital	**(29,958)**	3,081	**(101,506)**	(45,074)
Less: Maintenance Capital (2)	**(532)**	(1,649)	**(7,231)**	(7,027)
Distributable Earnings (1)	**9,810**	32,018	**47,928**	93,748
Dividends declared	**—**	3,984	**2,948**	11,972
Dividend Payout Ratio (1)	**— %**	12 %	**6 %**	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:

	November 12, 2020	September 30, 2020	December 31, 2019
Common shares outstanding	260,271,215	262,567,958	263,956,291
Restricted Share Unit Plan ("RSU")	8,531,839	8,668,539	6,411,540
Share Rights Incentive Plan ("SRIP")	5,520,645	5,532,645	9,787,645
Phantom Share Unit Plan ("PSU")	4,829,781	4,829,781	—

Stock-based compensation - cash-settled transactions
CES has adopted a Phantom Share Unit ("PSU") plan effective June 23, 2020. PSUs are awarded to non-executive employees and entitle the holder to the cash-equivalent of the five day volume weighted average share price of the Company's common shares plus reinvested notional dividends upon maturity. The PSUs generally vest over three years, on the anniversary from the date of grant, subject to other such vesting schedules or conditions as determined by the Board of Directors. Throughout the vesting period, holders of PSUs will be entitled to the dividend equivalents in the form of additional PSUs on each dividend payment date, to be held in the PSU account until such time as the awards have vested.

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.

A summary of the Company's NCIB program for the three and nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

$000s except for share and per share amounts	**Three Months Ended September 30, 2020**	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Number of shares	**2,633,400**	4,958,677	5,801,703
Cash outlay	**2,367**	7,171	13,146
Average price per share	**$0.90**	$1.45	$2.27

Subsequent to September 30, 2020, the Company has repurchased 2,430,500 additional shares at a weighted average price of $0.73 for a total of $1.8 million.

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".

For the three and nine months ended September 30, 2020, the Company has not adjusted EBITDAC, Gross Margin (excluding depreciation), or General and Administrative Costs for any non-recurring items that would be considered to be a direct impact of the COVID-19 pandemic, such as increased costs of compliance with public health measures. The non-GAAP measures as calculated in the tables below reflect certain non-recurring items that are related to the significant downturn in the oil and natural gas market and the resulting slowdown in industry activity. While this slowdown is directly related to the impact of the COVID-19 pandemic on oil and gas markets, these adjustments are not as a result of direct impacts of COVID-19 on our operations.

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 September 30,		Nine Months Ended September 30,	
$000s	**2020**	2019	**2020**	2019
Net (loss) income	**(12,725)**	7,637	**(263,356)**	18,196
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**12,441**	12,729	**39,892**	39,161
Depreciation on property and equipment in G&A	**2,079**	2,124	**6,491**	6,279
Amortization on intangible assets in G&A	**3,826**	3,692	**11,647**	12,598
Current income tax expense	**636**	618	**1,602**	2,258
Deferred income tax expense (recovery)	**2,606**	5,231	**(11,880)**	10,253
Stock-based compensation	**2,540**	3,792	**8,593**	14,257
Finance costs	**5,993**	6,415	**18,476**	21,367
Other (income) loss	**(98)**	(5)	**(672)**	142
Impairment of goodwill	**—**	—	**248,905**	—
EBITDAC	**17,298**	42,233	**59,698**	124,511
Add back (deduct):				
Inventory valuation write-downs	**—**	—	**12,283**	—
Additional bad debt allowance	**541**	—	**3,127**	—
Executive severance and management transition	**—**	—	**—**	2,963
Restructuring costs	**373**	—	**2,409**	—
Adjusted EBITDAC	**18,212**	42,233	**77,517**	127,474

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 September 30,		Nine Months Ended September 30,	
$000s	**2020**	2019	**2020**	2019
Gross Margin	**32,382**	68,701	**121,131**	207,244
as a percentage of revenue	**19 %**	22 %	**18 %**	22 %
Add back (deduct):				
Depreciation included in cost of sales	**12,441**	12,729	**39,892**	39,161
Inventory valuation write-downs	**—**	—	**12,283**	—
Restructuring costs	**108**	—	**1,523**	—
Adjusted Gross Margin (excluding depreciation)	**44,931**	81,430	**174,829**	246,405
as a percentage of revenue	**27 %**	26 %	**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 September 30,		Nine Months Ended September 30,	
$000's	**2020**	2019	**2020**	2019
General and administrative expenses	**35,970**	48,805	**128,056**	155,028
as a percentage of revenue	**22 %**	15 %	**19 %**	16 %
Deduct non-cash charges and non-recurring items:				
Stock-based compensation	**2,540**	3,792	**8,593**	14,257
Depreciation & amortization	**5,905**	5,816	**18,138**	18,877
Executive severance and management transition	**—**	—	**—**	2,963
Additional bad debt allowance	**541**	—	**3,127**	—
Restructuring costs	**265**	—	**886**	—
Adjusted General and Administrative Costs	**26,719**	39,197	**97,312**	118,931
as a percentage of revenue	**16 %**	12 %	**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 September 30,		Nine Months Ended September 30,	
$000s	**2020**	2019	**2020**	2019
Cash provided by operating activities	**40,300**	30,586	**156,665**	145,849
Adjust for:				
Change in non-cash operating working capital	**(29,958)**	3,081	**(101,506)**	(45,074)
Funds Flow From Operations	**10,342**	33,667	**55,159**	100,775

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, both current and non-current portions of lease obligations, offset by the Company's cash position, 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.

Total Debt, Working Capital Surplus, and Net Debt are calculated as follows:

	As at	
$000's	**September 30, 2020**	December 31, 2019
Long-term financial liabilities[(1)]	**300,370**	385,865
Current portion of finance lease obligations	**21,428**	21,766
Total Debt	**321,798**	407,631
Cash	**(29,401)**	—
Total Debt, net of cash	**292,397**	407,631
Deduct Working Capital Surplus:		
Current assets	**337,930**	499,820
Current liabilities[(2)]	**(71,032)**	(130,192)
Working Capital Surplus	**266,897**	369,628
Net Debt	**25,500**	38,003

[1]*Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, and and cash settled incentive 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 nine months ended September 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 nine months ended September 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 nine months ended September 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' Q3 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 extremely low activity levels. The 2020 results herein are a direct impact of the current low oil price environment largely attributable to the COVID-19 pandemic, 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 material 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 potential changes to US domestic and foreign policy as a result of the 2020 US election. 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 September 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 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 ongoing 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 tax policies or policies relating to the oil and gas industry; 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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BANKERS
Scotiabank Canada, Calgary, AB

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Crowe & Dunlevy, Oklahoma City, OK

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