Q4

Three and Twelve Months Ended December 31, 2020 as at March 11, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the years ended December 31, 2020 and 2019, and CES' 2020 Annual Information Form. Readers should also refer to the "Forward-looking Information & Statements" legal advisory and the sections regarding "Non-GAAP Measures" and "Operational Definitions" at the end of this MD&A. This MD&A is dated March 11, 2021, 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 Catalyst LLC ("Jacam 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").

Following a series of transformative acquisitions, including the purchase of Jacam Chemicals ("Jacam") in 2013 and Catalyst Oilfield Services ("Catalyst") in 2016, the Company has been focused on integrating these businesses into its existing operations and driving efficiencies and organic growth. On December 31, 2020, the Company completed an internal organization, which combined the retail businesses of Jacam and Catalyst to form Jacam Catalyst, LLC.

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; Grande 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 Grande 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

The Company's Q4 2020 results represented a strong finish to an otherwise challenging year, with sequential improvements in revenue and Adjusted EBITDAC margin. While the oil and gas industry conditions continued to be significantly impacted by a reduction in global demand caused by the coronavirus ("COVID-19") pandemic, the fourth quarter of 2020 saw some of these headwinds subside following news of successful COVID-19 vaccines nearing final regulatory approval and initial rollouts. CES' Q4 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 during the past year, CES' overall liquidity position and balance sheet strength continued to improve in the fourth 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 year with a net cash position of $18.3 million and a fully accessible Senior Facility, driven by strong cash flow generation achieved through a combination of increased activity levels, greater market share, effective 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, by $107.9 million from $407.6 million at December 31, 2019, and by $126.9 million from $426.6 million at March 31, 2020, to $299.7 million at December 31, 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 improved from the low prices impacting the first half of the year and industry activity levels increased throughout the fourth quarter when compared to the second and third quarters of 2020, the Company remains cognizant of the COVID-19 related potential severity and duration of this lower oil demand 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 twelve months ended December 31, 2020, the Company recognized CEWS program benefits in the amount of $2.9 million and $14.7 million, respectively, as a reduction to wage expense of which $1.5 million and $7.7 million allocated to cost of sales, for the respective periods, and $1.4 million and $7.0 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 experienced limited adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. Given that CES was and is generally considered to be an essential service provider in all regions in which the Company operates, CES' operations have been and continue to remain open and fully operating. Furthermore, CES' vertical integration, effective 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 as conditions have begun to 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 has continued to demonstrate our resiliency to weather challenging business environments while preparing the Company to excel as headwinds subside.

FINANCIAL HIGHLIGHTS

	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2020**	2019	%Change	**2020**	2019	%Change
Revenue						
United States	**137,262**	217,427	(37)%	**600,898**	906,377	(34)%
Canada	**75,552**	98,134	(23)%	**287,149**	370,880	(23)%
Total Revenue	**212,814**	315,561	(33)%	**888,047**	1,277,257	(30)%
Net income (loss)	**40,453**	11,910	240 %	**(222,903)**	30,106	nmf
per share – basic	***0.15***	*0.04*	245 %	***(0.85)***	*0.11*	nmf
per share - diluted	***0.15***	*0.04*	254 %	***(0.85)***	*0.11*	nmf
Adjusted EBITDAC(2)	**24,651**	39,653	(38)%	**102,168**	167,127	(39)%
Adjusted EBITDAC(2) % of Revenue	***11.6 %***	*12.6 %*	(1.0)%	***11.5 %***	*13.1 %*	(1.6)%
Cash provided by operating activities	**14**	41,455	(100)%	**156,679**	187,304	(16)%
Funds Flow From Operations(2)	**17,194**	31,553	(46)%	**72,353**	132,328	(45)%
Capital expenditures						
Expansion Capital(2)	**1,559**	9,098	(83)%	**14,885**	32,504	(54)%
Maintenance Capital(2)	**832**	5,718	(85)%	**8,063**	12,745	(37)%
Total capital expenditures	**2,391**	14,816	(84)%	**22,948**	45,249	(49)%
Dividends declared	—	3,970	(100)%	**2,948**	15,942	(82)%
per share	—	*0.0150*	(100)%	***0.0113***	*0.0600*	(81)%
Common Shares Outstanding						
End of period	**258,264,857**	263,956,291		**258,264,857**	263,956,291	
Weighted average - basic	**260,997,098**	265,214,700		**263,065,652**	265,956,626	
Weighted average - diluted	**260,997,098**	271,779,891		**263,065,652**	272,604,972	

	As at				
Financial Position ($000s)	**December 31, 2020**	September 30, 2020	%Change	December 31, 2019	%Change
Total assets	**857,888**	838,270	2 %	1,219,772	(30)%
Long-term financial liabilities(1)	**298,776**	300,370	(1)%	385,865	(23)%
Total Debt, net of cash(2)	**299,677**	292,397	2 %	407,631	(26)%
Working Capital Surplus(2)	**273,313**	266,897	2 %	369,628	(26)%
Net Debt(2)	**26,364**	25,500	3 %	38,003	(31)%
Shareholders' equity	**455,663**	443,054	3 %	679,310	(33)%

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 twelve months ended December 31, 2020 in comparison to the three and twelve months ended December 31, 2019 for CES are as follows:

- CES' fourth quarter results represented a strong finish to an otherwise challenging year, with sequential improvements in revenue and Adjusted EBITDAC margin, but continue to be reflective of difficult industry conditions with reduced year over year 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 second half of 2020, 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 64% of the Company's overall revenue in Q4 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 Q4 2020 as compared to Q4 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 fourth quarter, CES was successful in increasing its US Drilling Fluids Market Share to 20%, a record for the Company and up from 13% in Q4 2019 and the previous record of 17% in Q3 2020.

- As at December 31, 2020, CES had a Working Capital Surplus of $273.3 million, which represents a $96.3 million reduction from $369.6 million at December 31, 2019, and a $144.0 million reduction from $417.3 million at March 31, 2020. This reduction in working capital was 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 two years. Through the pandemic, CES has benefited greatly from the high quality of its customers and diligent internal credit monitoring processes. As a result, CES managed to maintain a strong collection record and has minimized accounts receivable losses, recording only $3.8 million in credit loss provisions in 2020 (2019 - $0.5 million), representing less than 0.5% of revenue during the year ended December 31, 2020. In the fourth quarter, CES generated $17.2 million in Funds Flow From Operations and exited 2020 with net cash of $18.3 million and a fully accessible Senior Facility while making modest investments in working capital attributable to higher drilling related activity. 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 each quarter of 2020 in the low commodity price environment, which excludes the impact of working capital release and is reflective of the Company's cost rationalization efforts and improved market conditions in the quarter.

- CES exited the year with a net cash balance of $18.3 million, a fully accessible Senior Facility, and Total Debt, net of cash, of $299.7 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 draw of $76.7 million and Total Debt of $407.6 million). CES' Senior Facility was fully accessible at December 31, 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 December 31, 2020, industry activity continued to improve from trough levels seen in 2020, 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 $8.0 million and a 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 personnel related cost reductions, capital expenditure reductions, dividend suspension and NCIB activity:
  - The Company took proactive measures to right-size the business, including reductions to Executive, Board of Directors' and employee compensation levels coupled with reductions in personnel and overhead costs.
  - In light of challenging market conditions, the Company suspended all non-essential capital expenditures. Capital expenditures incurred in 2020, excluding amounts financed through leasing arrangements, were $7.1 million below the expected 2020 expenditures of up to $30.0 million, compared to $45.2 million in 2019, and representing a $27.1 million or 54% reduction from the original 2020 capital expenditure plan of $50.0 million. In Q4 2020, CES incurred $2.4 million in capital expenditures, representing an 84% decrease from Q4 2019. In 2020, CES incurred $22.9 million in capital expenditures, representing a decrease of 49% year over year. Q4 2020 capital expenditures are primarily comprised of field equipment, processing equipment, and tank expenditures to support increased activity levels in Q4 2020, specifically in the production chemical business.
  - 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 conserved 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 Q4 2020, the Company

opportunistically repurchased 4,481,900 common shares at an average price of $0.91 per share for a total amount of $4.1 million. During the year ended December 31, 2020, the company repurchased 9,440,577 common shares at an average price of $1.19 for a total amount of $11.3 million. Subsequent to December 31, 2020, the Company repurchased 5,356,700 additional shares at a weighted average price of $1.46 per share for a total amount of $7.8 million.

- In the fourth quarter, CES generated revenue of $212.8 million, a decrease of $102.8 million or 33% compared to $315.6 million in revenue for Q4 2019. For the twelve months ended December 31, 2020, CES generated revenue of $888.0 million, a decrease of $389.3 million or 30% from $1.28 billion in the 2019 comparative period. For both periods, revenue was significantly affected by the global economic impacts of COVID-19 and the lower commodity price environment, which resulted in temporary production shut-ins, deferred completions and drastic declines in drilling activity in North America throughout most of the year.
    - Revenue generated in the US for the three and twelve months ended December 31, 2020 decreased 37% and 34% to $137.3 million and $600.9 million, respectively, over the 2019 comparative periods. US revenues in both periods were negatively impacted by lower activity levels across all operating divisions. US land drilling activity fell by 63% from Q4 2019 to Q4 2020 as operators curtailed 2020 capital spending in order to preserve capital and avoid uneconomic completions. Despite this challenging environment, CES was able to increase its US Drilling Fluids Market Share to 20%, a record for the Company and up from 13% in Q4 2019 and the previous record of 17% in Q3 2020. Year over year, production volumes were also down significantly, however, sequentially, the Company benefited from the reversal of certain production shut-ins.
    - Revenue generated in Canada for the three and twelve months ended December 31, 2020 decreased 23% to $75.6 million and $287.1 million, respectively, over the 2019 comparative periods. Both the production chemicals and drilling fluids businesses in Canada saw significant declines in industry activity levels and experienced intense pricing pressure from customers over the comparable periods. Sequentially, the Company benefited from increased industry activity levels and increased production volumes, 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 challenging global oilfield market and the cost containment initiatives executed by the Company to right-size the business for reduced industry activity levels, CES recorded the following items during the three and twelve months ended December 31, 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 $0.7 million and $3.8 million, respectively, in additional bad debt allowances; and
    - Within cost of sales and general and administrative expenses, the Company recorded $0.4 million and $2.8 million, respectively, in restructuring costs.

  Excluding the items noted above, CES achieved Adjusted EBITDAC of $24.7 million in Q4 2020, compared to $39.7 million in Q4 2019. For the twelve months ended December 31, 2020, CES achieved Adjusted EBITDAC of $102.2 million compared to $167.1 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% and 11.6% achieved in Q3 2020 and Q4 2020, respectively, represented a significant improvement from the 5.1% recorded in Q2 2020 as the Company benefited from improved competitive positioning, the reversal of certain production shut-ins in both the US and Canada, improving drilling activity, and increased market share.

- Net income for Q4 2020 was $40.5 million compared to $11.9 million in Q4 2019. Net income increased from Q4 2019 to Q4 2020 primarily due to an increased deferred income tax recovery attributable to the significant tax benefit recognized on the unused tax losses in the US and Canada, lower interest expense due to lower debt levels, recognition of $2.9 million benefit from the CEWS program, and a reduction in stock based compensation expense, offset by the factors outlined above. For the twelve months ended December 31, 2020, net loss was $222.9 million compared to net income of $30.1 million for the twelve months ended December 31, 2019. For the twelve month comparative periods, net loss was impacted by a $248.9 million goodwill impairment recorded by the Company in Q1 2020 and the associated deferred income tax recovery. Further description of these items for the three and twelve months ended December 31, 2020 are found in the Results for the Period section of this MD&A.

OUTLOOK

In 2020, global demand for fossil fuels was severely impacted by COVID-19 and the associated public health restriction measures implemented worldwide. Estimated energy demand and oil prices were severely affected in the second quarter of 2020, leading to significant reductions to drilling activity and production levels. As the year progressed, production shut-ins began to reverse and drilling activity began to improve towards the latter half of the year, albeit well below pre-COVID levels.

There is increased economic optimism going into 2021 as governments worldwide distribute the COVID-19 vaccines which could lead to lifting restrictions and spurring demand for fossil fuels above 2020 levels. This increased activity and demand may lead to improving commodity prices, production levels and drilling activity. CES remains cautious with its 2021 outlook and expects upstream activity across North America to continue below pre-COVID levels. The uncertainty surrounding the magnitude and duration of this downturn has prompted customers to reduce their capital spending programs compared to pre-COVID levels thereby resulting in a corresponding reduction in demand for the Company's products and services. During 2020, CES undertook significant steps to rationalize its cost structure and will take additional appropriate actions as necessary, including gradually assessing cost structure reductions to support growth throughout the divisions. During 2020, CES received funding from the Canadian Federal Government's CEWS program, recognizing an aggregate benefit of $14.7 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 continue to benefit from its asset light, consumable chemical business model and its ability to maintain a prudent cost structure in this industry activity level environment. CES' counter cyclical leverage model was tested during the pandemic and demonstrated its ability to remain resilient despite 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 Q4 2020, CES has again demonstrated its financial resiliency with consistent positive Funds Flow from Operations, a $116.5 million working capital harvest resulting in a fully accessible Senior Facility and a positive net cash balance of $18.3 million as at December 31, 2020. Currently, the Company has a net cash balance of approximately $8.0 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.

In light of challenging market conditions, the Company suspended all non-essential capital expenditures in 2020. CES expects 2021 capital expenditures to be up to $30.0 million, of which $10.0 million is expansion and $20.0 million is maintenance. CES plans to continue its disciplined and prudent approach to capital expenditures in 2021 and will adjust its plans as required to support growth throughout divisions and 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' underlying business model is capex light and asset light, enabling generation of significant surplus free cash flow. As our customers increasingly regulate their business models to maintain spending within cash flows, we believe that CES will be able to leverage its established infrastructure, business model, and nimble customer-oriented culture to deliver superior products and services to the industry. CES demonstrated this ability during the depths of the downturn and expects to continue doing so as industry conditions improve. 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' vertically integrated business model enables it 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 December 31,			Year Ended December 31,		
$000s	**2020**	2019	% Change	**2020**	2019	% Change
United States	**137,262**	217,427	(37)%	**600,898**	906,377	(34)%
Canada	**75,552**	98,134	(23)%	**287,149**	370,880	(23)%
	212,814	315,561	(33)%	**888,047**	1,277,257	(30)%

	Key Operating Metrics					
	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	% Change	**2020**	2019	% Change
US	**29,548**	30,793	(4)%	**29,489**	30,299	(3)%
Canada	**6,653**	8,076	(18)%	**6,389**	7,976	(20)%
Total Treatment Points(1)	**36,201**	38,869	(7)%	**35,878**	38,275	(6)%
US	**5,301**	9,691	(45)%	**24,080**	43,197	(44)%
Canada	**3,043**	5,145	(41)%	**12,965**	18,760	(31)%
Total Operating Days(1)	**8,344**	14,836	(44)%	**37,045**	61,957	(40)%
US	**58**	105	(45)%	**67**	118	(44)%
Canada	**33**	56	(41)%	**36**	52	(31)%
Total Average Rig Count(1)	**91**	161	(43)%	**102**	170	(40)%
US industry rig count(2)	**297**	796	(63)%	**418**	920	(55)%
Canadian industry rig count(3)	**96**	156	(38)%	**94**	144	(35)%
US DF Market Share(1)	**20%**	13 %	7 %	**16 %**	13 %	3 %
Canadian DF Market Share(1)	**34%**	36 %	(2)%	**38 %**	36 %	2 %

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.*

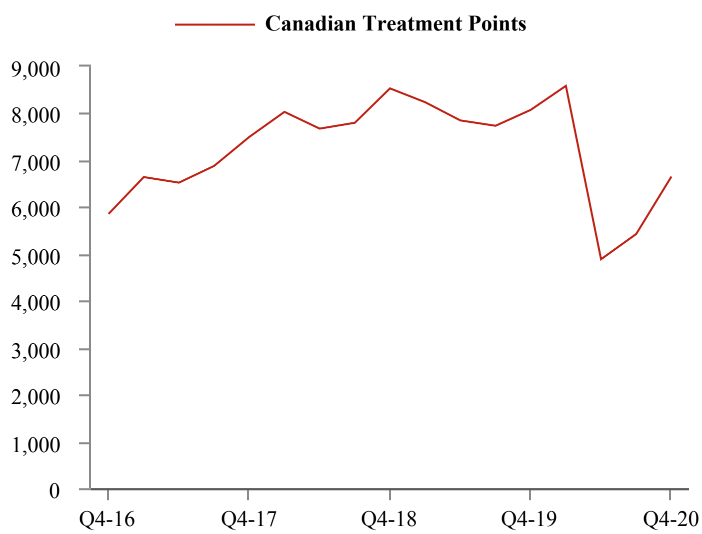
Revenues for the three and twelve months ended December 31, 2020 in both the US and Canada were negatively affected by reduced industry activity levels, temporary production shut-ins, and pricing pressure from customers. In the first two months of the year, CES' infrastructure and capabilities capitalized 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. CES achieved sequential improvements in revenue and Adjusted EBITDAC as industry activity levels improved in Q4 2020 as compared with Q3 2020.

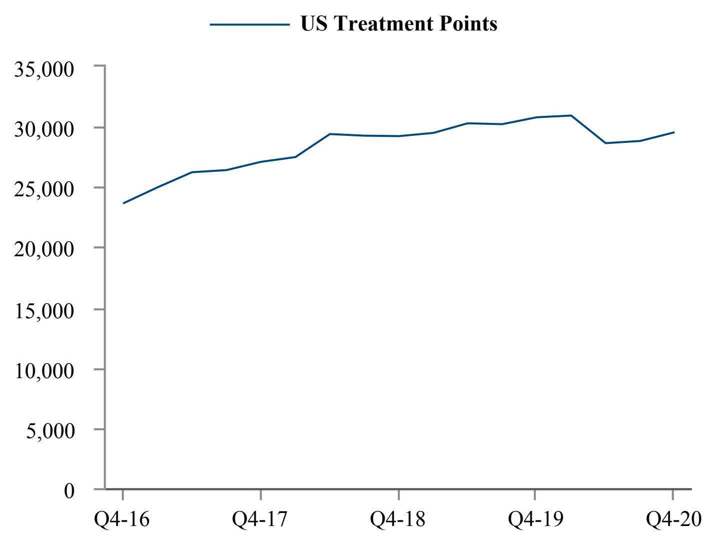
US average rig count decreased 45% to 58 rigs in Q4 2020 compared to 105 in Q4 2019 and US Operating Days were also down 45% for the comparable periods. Despite the significant decline in industry activity and US Operating Days, the Company's US DF Market Share increased to 20%, a record for the Company and up from 13% in Q4 2019 and the previous record of 17% in Q3 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 were increasingly focused on managing near-term cash lifting costs. Sequentially, CES saw improvements in drilling activity levels and increased US Treatment Points as some customers reversed shut-in decisions and production chemical volumes increased slightly as a result.

The Canadian industry rig count decreased by 38% from 156 to 96 rigs as customers curtailed spending and deferred completions, and correspondingly, the Company saw a 41% decrease in Canadian Operating Days from Q4 2019 to Q4 2020. Canadian Treatment Points declined by 18% year over year as production volumes remained low and frac related chemical sales also declined. CES' Canadian operations improved sequentially over Q3 2020 due to 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.

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 Q4 2016. However, as outlined above, Q2, Q3 and Q4 2020 have been negatively impacted by the economic effects of COVID-19 and the lower commodity price environment.

Quarterly Treatment Points





Included in revenue generated in Canada for the three and twelve months ended December 31, 2020 is $1.2 million and $4.6 million, respectively (2019 - $1.6 million and $7.3 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 December 31,		Year Ended December 31,	
	2020	2019	**2020**	2019
Top five customers as a % of total revenue	**25 %**	29 %	**23 %**	29 %
Top customer as a % of total revenue	**12 %**	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 December 31,			Year Ended December 31,		
$000s	**2020**	2019	Change	**2020**	2019	Change
Gross Margin	**44,484**	66,133	(21,649)	**165,615**	273,377	(107,762)
as a percentage of revenue	**21 %**	21 %	— %	**19 %**	21 %	(2)%
Add back (deduct):						
Depreciation included in cost of sales	**11,832**	12,703	(871)	**51,724**	51,864	(140)
Inventory valuation write-downs	**—**	—	—	**12,283**	—	12,283
Restructuring costs	**146**	—	146	**1,669**	—	1,669
Adjusted Gross Margin (excluding depreciation)(1)	**56,462**	78,836	(22,374)	**231,291**	325,241	(93,950)
as a percentage of revenue	**27 %**	25 %	2 %	**26 %**	25 %	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 twelve months ended December 31, 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 $1.7 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 for the three and twelve months ended December 31, 2020 is reflective of the realization of these significant cost reductions along with the benefit recognized from the CEWS program. For the three and twelve months ended December 31, 2020, CES recorded a $1.5 million and $7.7 million, respectively, benefit from the CEWS program as an offset to compensation costs within cost of sales in the respective periods. The Company expects pricing pressure and margin compression to continue in this low commodity price environment as customers remain focused on managing near-term cash lifting costs, and as competitors take more desperate actions to retain market share.

General and Administrative Expenses ("G&A")

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

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2020**	2019	Change	**2020**	2019	Change
General and administrative expenses	**41,294**	48,262	(6,968)	**169,350**	203,290	(33,940)
as a percentage of revenue	**19 %**	15 %	4 %	**19 %**	16 %	3 %
Deduct non-cash charges and non-recurring items:						
Stock-based compensation	**2,950**	3,369	(419)	**11,543**	17,626	(6,083)
Depreciation & amortization	**5,649**	5,710	(61)	**23,787**	24,587	(800)
Additional bad debt allowance	**668**	—	668	**3,795**	—	3,795
Restructuring costs	**216**	—	216	**1,102**	—	1,102
Executive severance and management transition	—	—	—	—	2,963	(2,963)
Adjusted General and Administrative Costs(1)	**31,811**	39,183	(7,372)	**129,123**	158,114	(28,991)
as a percentage of revenue	**15 %**	12 %	3 %	**15 %**	12 %	3 %

[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 twelve months ended December 31, 2020, which negatively impacted G&A expenses and are considered to be non-recurring:

- The Company recorded $0.7 million and $3.8 million, respectively, in additional bad debt allowances; and
- The Company recorded $0.2 million and $1.1 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. Further, CES recorded a $1.4 million and $7.0 million benefit for the three and twelve months ended December 31, 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 Q4 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, gradually assessing personnel and overhead costs, compensation levels, discretionary spending, and the reversal of cost structure reductions to support growth throughout the divisions.

Stock-Based Compensation

Stock-based compensation expense decreased 12% and 35%, respectively, for the three and twelve months ended December 31, 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 twelve months ended December 31, 2020 and 2019, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Interest on debt, net of interest income	**5,190**	6,651	**22,869**	27,288
Amortization of debt issue costs and premium	**310**	310	**1,241**	1,319
Foreign exchange (gain) loss	**(1,386)**	152	**(1,579)**	(180)
Financial derivative loss	**2,274**	17	**2,515**	34
Gain on repurchase of senior unsecured notes	—	(498)	**(182)**	(498)
Other finance costs	—	—	—	36
Finance costs	**6,388**	6,632	**24,864**	27,999

Interest expense

Finance costs for the three and twelve months ended December 31, 2020 include interest on debt, net of interest income, of $5.2 million and $22.9 million, respectively (2019 - $6.7 million and $27.3 million, respectively). Included in these amounts is interest on the Company's Senior Notes in the amount of $4.6 million and $18.4 million for the three and twelve months ended December 31, 2020 down from the comparable 2019 periods of $4.7 million and $19.0 million, respectively, as a result of the repurchases of Senior Notes undertaken during 2020. Further, CES' Senior Facility draw has come down significantly, resulting in lower interest costs in Q4 2020 versus Q4 2019.

Foreign exchange gains and losses
Finance costs for the three and twelve months ended December 31, 2020 include a realized and unrealized net foreign exchange gain of $1.4 million and $1.6 million, respectively (2019 - net loss of $0.2 million and net gain of $0.2 million, respectively). The net foreign exchange gain during Q4 2020 is primarily related to foreign exchange gains on the Company's USD denominated cash.

Derivative gains and losses
Finance costs for the three and twelve months ended December 31, 2020 include a realized and unrealized net derivative loss totaling $2.3 million and $2.5 million, respectively (2019 - net loss of $0.02 million and $0.03 million, respectively) relating to the Company's foreign currency derivative contracts. As of December 31, 2020, the Company had a financial derivative liability of net $1.1 million relating to its outstanding derivative contracts (December 31, 2019 - net liability of $0.1 million). CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters management follows when approaching its risk management strategies.

At December 31, 2020, the Company had US$32.5 million outstanding in CAD forward purchase contracts at a weighted average exchange rate of $1.3053, maturing in January 2021, as a result of a USDCAD swaps entered into in November 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, Luxembourg, and Hungary. For the three and twelve months ended December 31, 2020, income tax expense was comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Current income tax expense	**740**	1,526	**2,342**	3,784
Deferred income tax (recovery) expense	**(44,360)**	(2,193)	**(56,240)**	8,060
Total income tax (recovery) expense	**(43,620)**	(667)	**(53,898)**	11,844

Current income tax expense decreased year over year due to decreased activity levels in Canada and in the US. The year over year movement in deferred income tax expense was primarily attributable to the significant tax benefit recognized on the unused tax losses in Canada and in the US, in addition to the tax benefit recognized due to the goodwill impairment recorded in Q1 2020.

Working Capital Surplus and Net Debt
CES continues to maintain a prudent balance sheet and focus on working capital optimization. CES' fourth 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 $273.3 million as at December 31, 2020 compared to $369.6 million as at December 31, 2019 and $417.3 million as at March 31, 2020. The decrease in Working Capital Surplus at December 31, 2020 is attributable to decreased revenue levels across the Company from Q1 2020 to Q4 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 $1.2732 at December 31, 2020. CES' Total Debt continues to be primarily reflective of working capital investments, and as such, at December 31, 2020, the Company had Net Debt of $26.4 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 their respective carrying values and resulted in goodwill impairment

of $248.9 million. The Company's impairment analysis as of December 31, 2020, indicated that the recoverable amount of the net assets for the US Operations CGU exceeded its respective carrying value and, therefore, no additional impairment was required.

Total Long-Term Assets
Year over year, total long-term assets of CES decreased by $235.7 million to $484.3 million, as at December 31, 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 along with the Company's USD denominated long-term assets, which were negatively impacted by the depreciation of the USD versus CAD on December 31, 2020, compared to December 31, 2019, offset by an increase of $54.5 million in the deferred income tax asset as discussed above.

Long-Term Financial Liabilities
CES had long-term debt net of cash totaling $266.4 million as at December 31, 2020, compared to $362.8 million at December 31, 2019, a decrease of $96.4 million. The decrease was primarily driven by decreased borrowings on the Senior Facility during the period, due to strong working capital harvest achieved by the Company in the form of cash during periods of lower activity levels and used to pay down draws on the Senior Facility. Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

Related Party Transactions
Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2020, remuneration of $11.1 million included $6.2 million of salaries and cash-based compensation and $4.9 million of stock-based compensation costs (2019 – $6.0 million and $6.8 million, respectively). During the year ended December 31, 2019, the Company recorded general and administrative expenses of $3.0 million in respect of one-time executive-related severance costs.

During the year ended December 31, 2020, CES paid rent of $0.03 million (2019 - $0.06 million) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenue								
United States	**137,262**	113,859	121,819	227,958	217,427	227,282	236,776	224,892
Canada	**75,552**	52,434	37,674	121,489	98,134	88,489	76,161	108,096
Revenue	**212,814**	166,293	159,493	349,447	315,561	315,771	312,937	332,988
Net income (loss)	**40,453**	(12,725)	(24,911)	(225,720)	11,910	7,637	8,361	2,198
per share– basic	***0.15***	*(0.05)*	*(0.09)*	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*
per share– diluted	***0.15***	*(0.05)*	*(0.09)*	*(0.86)*	*0.04*	*0.03*	*0.03*	*0.01*
Adjusted EBITDAC (1)	**24,651**	18,212	8,173	51,132	39,653	42,233	41,528	43,713
per share– basic	***0.09***	*0.07*	*0.03*	*0.19*	*0.15*	*0.16*	*0.16*	*0.16*
per share– diluted	***0.09***	*0.07*	*0.03*	*0.19*	*0.15*	*0.15*	*0.15*	*0.16*
Dividends declared	**—**	—	—	2,948	3,970	3,984	3,993	3,995
per share	**—**	—	—	*0.0113*	*0.0150*	*0.0150*	*0.0150*	*0.0150*
Shares Outstanding								
End of period	**258,264,857**	262,567,958	264,883,808	262,026,924	263,956,291	265,647,874	265,738,759	266,968,576
Weighted average – basic	**260,997,098**	264,841,429	263,715,927	262,711,372	265,214,700	265,762,689	266,719,773	266,141,659
Weighted average – diluted	**260,997,098**	264,841,429	263,715,927	262,711,372	271,779,891	272,971,478	273,085,762	272,078,943

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

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

SELECTED ANNUAL INFORMATION

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

	Year Ended December 31,				
($000s, except per share amounts)	**2020**	% Change	2019	% Change	2018[3]
Revenue					
United States	**600,898**	(34)%	906,377	7 %	847,841
Canada	**287,149**	(23)%	370,880	(12)%	423,210
Total revenue	**888,047**	(30)%	1,277,257	0.5 %	1,271,051
(Loss) income before taxes	**(276,801)**	nmf	41,950	(19)%	51,643
per share - basic	**(1.05)**	nmf	0.16	(16)%	0.19
per share - diluted	**(1.05)**	nmf	0.15	(21)%	0.19
Net (loss) income	**(222,903)**	nmf	30,106	(37)%	47,735
per share - basic	**(0.85)**	nmf	0.11	(39)%	0.18
per share - diluted	**(0.85)**	nmf	0.11	(35)%	0.17
Adjusted EBITDAC [2]	**102,168**	(39)%	167,127	(0.3)%	167,589
per share - basic	**0.39**	(38)%	0.63	— %	0.63
per share - diluted	**0.39**	(37)%	0.61	— %	0.61
Dividends declared	**2,948**	(82)%	15,942	25 %	12,707
per share	**0.0113**	(81)%	0.0600	26 %	0.0475

	As at December 31,				
Financial position ($000s)	**2020**	% Change	2019	% Change	2018[3]
Total assets	**857,888**	(31)%	1,219,772	(8)%	1,321,809
Long-term financial liabilities[1]	**298,776**	(23)%	385,865	(19)%	473,980
Total Debt, net of cash[2]	**299,677**	(26)%	407,631	(15)%	488,837
Working Capital Surplus[2]	**273,313**	(26)%	369,628	(15)%	435,251
Net debt[2]	**26,364**	(31)%	38,003	(29)%	53,586
Shareholders' equity	**455,663**	(33)%	679,310	(3)%	697,570

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

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**December 31, 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	**(4,269)**	(5,510)
Long-term debt	**284,685**	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 they relate 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 fourth quarter, as the Company once again displayed its defensible business model and counter cyclical balance sheet at low points of the cycle. Using cash generated through working capital harvest in the year, the Company was able to reduce 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 year with a positive net cash position of $18.3 million, repurchase $2.0 million in outstanding Senior Notes, and repurchase 9,440,557 common shares for $11.3 million at an average price of $1.19 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 December 31, 2020, the Company had a net cash balance of $18.3 million (December 31, 2019 - net draw of $76.7 million). As such, at December 31, 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 December 31, 2020 and December 31, 2019, are as follows:

	As at	
$000s	**December 31, 2020**	December 31, 2019
Net Senior Debt	**2,456**	107,812
EBITDA for the year ended	**92,327**	159,980
Ratio	**0.027**	0.674
Maximum	**2.500**	2.500
EBITDA for the year ended	**92,327**	159,980
Interest Expense for the year ended	**22,155**	26,226
Ratio	**4.167**	6.100
Minimum	**2.500**	2.500

Senior Notes

During the year ended December 31, 2020, the Company repurchased and canceled $2.0 million of its Senior Notes for an aggregate purchase price of $1.8 million resulting in a gain of $0.2 million recorded against finance costs and an associated annualized interest expense reduction of $0.1 million. At December 31, 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, 2021. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at December 31, 2020, the Company was in compliance with the terms and covenants of its lending agreements. For the three and twelve months ended December 31, 2020, the Company recorded $5.6 million and $24.2 million, respectively (2019 - $6.8 million and $28.5 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 December 31, 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	79,979	—	—	—	—	**79,979**
Income taxes payable	—	885	—	—	—	**885**
Senior Notes [2]	—	—	—	288,954	—	**288,954**
Interest on Senior Notes	—	18,421	18,421	36,842	—	**73,684**
Lease obligations [3]	3,280	15,872	8,095	3,724	1,441	**32,412**
Commitments [4]	926	1,787	138	—	—	**2,851**
Other long-term liabilities	—	—	510	321	—	**831**
	84,185	36,965	27,164	329,841	1,441	**479,596**

[1] Payments denominated in foreign currencies have been translated using the December 31, 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 and twelve months ended December 31, 2020 and 2019:

	Three Months Ended December 31,			Year Ended December 31,		
$000's	**2020**	2019	Change	**2020**	2019	Change
Net cash provided by (used in)						
Operating Activities	**14**	41,455	(41,441)	**156,679**	187,304	(30,625)
Investing Activities	**(780)**	(21,271)	20,491	**(16,885)**	(43,361)	26,476
Financing Activities	**(9,643)**	(20,184)	10,541	**(120,135)**	(143,943)	23,808

Cash Flows from Operating Activities

For Q4 2020, cash flow from operating activities was an inflow of $0.01 million, compared to $41.5 million during the three months ended December 31, 2019, with the decrease being primarily driven by decreased levels of working capital in Q4 2020 compared to Q4 2019 on account of decreased activity levels in the period, offset by the increase in net income year over year.

Cash Flows from Investing Activities

For Q4 2020, net cash outflows from investing activities totaled $0.8 million, as compared to the outflow of $21.3 million from investing activities during Q4 2019, with the decrease being reflective of the Company's capital expenditure reductions year over year. In Q4 2020, total investment in property and equipment was $2.4 million versus $14.8 million in Q4 2019.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2020**	2019	**2020**	2019
Expansion Capital [(1)]	**1,559**	9,098	**14,885**	32,504
Maintenance Capital [(1)]	**832**	5,718	**8,063**	12,745
Total investment in property and equipment	**2,391**	14,816	**22,948**	45,249
Change in non-cash investing working capital	**541**	(190)	**1,627**	3,254
Cash used for investment in property and equipment	**2,932**	14,626	**24,575**	48,503

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

For the three months ended December 31, 2020, $2.9 million of cash was used for investment in property and equipment compared to $14.6 million for the three months ended December 31, 2019. Expansion Capital expenditures in Q4 2020 were incurred to support increased activity levels in Q4 2020 as compared to Q3 2020 and include: $1.2 million incurred for field and processing equipment, $0.2 million incurred for warehouse and facilities, and $0.2 million incurred for tank expansions. Maintenance Capital additions during Q4 2020 include: $0.6 million incurred for warehouse and facilities, and $0.2 million incurred for field and processing equipment, and tanks to support logistics as certain customers continued bringing shut-in production back on-stream since 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. CES expects 2021 capital expenditures to be up to $30.0 million, of which $10.0 million is expansion and $20.0 million is maintenance. CES plans to continue its disciplined and prudent approach to capital expenditures in 2021 and will adjust its plans as required to support growth throughout divisions and as conditions continue to unfold.

Cash Flows from Financing Activities
For Q4 2020, cash flows used in financing activities totaled $9.6 million compared to $20.2 million in Q4 2019. This year over year change is primarily due to the repurchase of Senior Notes in Q4 2019 for a cash outflow of $8.5 million and the suspension of the Company's dividend program, offset by the reduction in the Company's draw on the Senior Facility in Q4 2020 as a result of working capital harvest achieved throughout the year and a corresponding net cash balance at December 31, 2020.

Dividend and NCIB 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 and share repurchases 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, helped 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 year ended December 31, 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**

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

	March 11, 2021	December 31, 2020	December 31, 2019
Common shares outstanding	253,103,560	258,264,857	263,956,291
Restricted Share Unit Plan ("RSU")	8,247,590	8,432,088	6,411,540
Share Rights Incentive Plan ("SRIP")	5,344,400	5,344,400	9,787,645
Phantom Share Unit Plan ("PSU")	4,709,191	4,726,795	—

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, 2020. 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 twelve months ended December 31, 2020 and the year ended December 31, 2019 is as follows:

$000s except for share and per share amounts	**Three Months Ended December 31, 2020**	Year Ended December 31, 2020	Year Ended December 31, 2019
Number of shares	**4,481,900**	9,440,577	5,801,703
Cash outlay	**4,080**	11,251	13,146
Average price per share	**$0.91**	$1.19	$2.27

Since the July 16, 2020 commencement of the Company's current NCIB program, the Company repurchased 7,115,300 common shares up to December 31, 2020, at an average price of $0.91 per share for a total amount of $6.4 million.

Since inception of the Company's NCIB programs on July 17, 2018, and up to December 31, 2020, the Company has repurchased 20,042,180 common shares at an average price of $2.19 per share for a total amount of $43.9 million.

Subsequent to December 31, 2020, the Company has repurchased 5,356,700 additional shares at a weighted average price of $1.46 for a total of $7.8 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 twelve months ended December 31, 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.

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

EBITDAC and Adjusted EBITDAC are calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Net income (loss)	**40,453**	11,910	**(222,903)**	30,106
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**11,832**	12,703	**51,724**	51,864
Depreciation on property and equipment in G&A	**1,856**	2,202	**8,347**	8,481
Amortization on intangible assets in G&A	**3,793**	3,508	**15,440**	16,106
Current income tax expense	**740**	1,526	**2,342**	3,784
Deferred income tax (recovery) expense	**(44,360)**	(2,193)	**(56,240)**	8,060
Stock-based compensation	**2,950**	3,369	**11,543**	17,626
Finance costs	**6,388**	6,632	**24,864**	27,999
Other (income) loss	**(31)**	(4)	**(703)**	138
Impairment of goodwill	**—**	—	**248,905**	—
EBITDAC	**23,621**	39,653	**83,319**	164,164
Add back (deduct):				
Inventory valuation write-downs	**—**	—	**12,283**	—
Additional bad debt allowance	**668**	—	**3,795**	—
Restructuring costs	**362**	—	**2,771**	—
Executive severance and management transition	**—**	—	**—**	2,963
Adjusted EBITDAC	**24,651**	39,653	**102,168**	167,127

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.

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 December 31,		Year Ended December 31,	
$000's	**2020**	2019	**2020**	2019
Cash provided by (used in) operating activities	**14**	41,455	**156,679**	187,304
Adjust for:				
Change in non-cash operating working capital	**17,180**	(9,902)	**(84,326)**	(54,976)
Less: Maintenance Capital [(1)]	**(832)**	(5,718)	**(8,063)**	(12,745)
Distributable Earnings	**16,362**	25,835	**64,290**	119,583
Dividends declared	**—**	3,970	**2,948**	15,942
Dividend Payout Ratio	**— %**	15 %	**5 %**	13 %

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

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 December 31,		Year Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Gross Margin	**44,484**	66,133	**165,615**	273,377
as a percentage of revenue	**21 %**	21 %	**19 %**	21 %
Add back (deduct):				
Depreciation included in cost of sales	**11,832**	12,703	**51,724**	51,864
Inventory valuation write-downs	**—**	—	**12,283**	—
Restructuring costs	**146**	—	**1,669**	—
Adjusted Gross Margin (excluding depreciation)	**56,462**	78,836	**231,291**	325,241
as a percentage of revenue	**27 %**	25 %	**26 %**	25 %

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2020**	2019	**2020**	2019
General and administrative expenses	**41,294**	48,262	**169,350**	203,290
as a percentage of revenue	**19 %**	15 %	**19 %**	16 %
Deduct non-cash charges and non-recurring items:				
Stock-based compensation	**2,950**	3,369	**11,543**	17,626
Depreciation & amortization	**5,649**	5,710	**23,787**	24,587
Additional bad debt allowance	**668**	—	**3,795**	—
Restructuring costs	**216**	—	**1,102**	—
Executive severance and management transition	**—**	—	**—**	2,963
Adjusted General and Administrative Costs	**31,811**	39,183	**129,123**	158,114
as a percentage of revenue	**15 %**	12 %	**15 %**	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 December 31,		Year Ended December 31,	
$000s	**2020**	2019	**2020**	2019
Cash provided by (used in) operating activities	**14**	41,455	**156,679**	187,304
Adjust for:				
Change in non-cash operating working capital	**17,180**	(9,902)	**(84,326)**	(54,976)
Funds Flow From Operations	**17,194**	31,553	**72,353**	132,328

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	**December 31, 2020**	December 31, 2019
Long-term financial liabilities(1)	**298,776**	385,865
Current portion of finance lease obligations	**19,152**	21,766
Total Debt	**317,928**	407,631
Cash	**(18,251)**	—
Total Debt, net of cash	**299,677**	407,631
Deduct Working Capital Surplus:		
Current assets	**355,288**	499,820
Current liabilities(2)	**(81,975)**	(130,192)
Working Capital Surplus	**273,313**	369,628
Net Debt	**26,364**	38,003

1 *Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, 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 consolidated financial statements and the reported amounts of revenue and expenses for the period. Although estimates and assumptions must be made during the financial statement preparation process, it is management’s opinion that none of the estimates or assumptions were highly uncertain at the time they were made.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates, which by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

Significant judgments

Determining CGUs

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

Leases

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

Significant estimates

Accounts receivable

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

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

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

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

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

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

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

Stock-based compensation
The fair value of Share Rights granted is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the share right, expected volatility, actual and expected life of the Share Rights, expected dividends based on the dividend yield at the date of grant, anticipated forfeiture rate, and the risk-free interest rate. The Company estimates volatility based on historical trading excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's normal share price volatility. The expected life of the Share Rights is based

on historical experience and general option holder behaviour. Management also makes an estimate of the number of Share Rights, Restricted Share Units, and Phantom Share Units that will be forfeited and the rate is adjusted to reflect the actual number of share rights and restricted share units that vest. Consequently, the actual stock-based compensation expense associated with the Company's share-based compensation plans may vary from the amount estimated.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies can be found in Note 3 of the consolidated financial statements for the year ended December 31, 2020. There have been no new standards or interpretations issued during 2020 that significantly impact the Company.

CORPORATE GOVERNANCE

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

As at December 31, 2020, management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' disclosure controls and procedures, as detailed by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2020, the disclosure controls and procedures were effective.

Internal Controls over Financial Reporting ("ICFR")
Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with CES' GAAP and includes those policies and procedures that (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of CES; (b) are designed to provide reasonable assurance that transactions are

recorded as necessary to permit preparation of financial statements in accordance with the CES' GAAP, and that receipts and expenditures of CES are being made only in accordance with authorizations of management and directors of CES; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the CES' assets that could have a material effect on the annual financial statements or interim financial statements.

Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer and based on criteria set out in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, conducted an evaluation of the design and effectiveness of CES' ICFR as at December 31, 2020. Based on their assessment, Management determined that ICFR were effective as at December 31, 2020.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 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' 2020 Annual Report, CES' Annual Information Form dated March 11, 2021 in respect of the year ended December 31, 2020, 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' Q4 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, the COVID-19 pandemic and production level decisions amongst OPEC+ members in the spring of 2020 collectively resulted in a sharp decline in commodity prices in the beginning of 2020. While oil and natural gas prices have improved since the first half of 2020, the oil and gas industry continues to face significant headwinds as a result of the ongoing COVID-19 pandemic and the resulting impact on demand for oil and natural gas. 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 , as well as government mandated production curtailments that were implemented to address these differentials. While there has been recent progress on pipeline projects in Canada, and in December 2020 government mandated production curtailments were suspended, there continues to be 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 and climate 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 December 31, 2020, CES is in compliance with terms and covenants of all of its lending agreements.

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.

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 foregoing risks and uncertainties are not intended to be exhastive. Reference should be made to CES' Annual Information Form dated March 11, 2021 for the year ended December 31, 2020, 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 the performance of CES' business model and counter cyclical balance sheet during downturns; expectations regarding CES' ability to qualify and participate in the Canadian Government's CEWS program; expectations regarding the impact of the COVID-19 pandemic on industry activity levels; expectations that CES will continue to remain open and fully operating during the COVID-19 pandemic; expectations regarding the availability and distribution of COVID-19 vaccines and the corresponding impact on government mandated travel and gathering restrictions, increased demand for fossil-fuels, improving commodity prices, increased production levels and drilling activity; 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; 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 and the US; 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 the impact of COVID-19 and 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; the impact of climate change policies in the regions which CES operates; the impact and speed of adoption of low carbon technologies; 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, 2020 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.

Consolidated Financial Statements

For the Year Ended December 31, 2020 and 2019

MANAGEMENT'S REPORT

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

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

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

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer
March 11, 2021

"Anthony M. Aulicino"
Anthony M. Aulicino
Chief Financial Officer
March 11, 2021

INDEPENDENT AUDITOR'S REPORT

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

Opinion
We have audited the consolidated financial statements of CES Energy Solutions Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020 and 2019, and the consolidated statements of net (loss) income and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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

Key Audit Matters
A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Goodwill – Canadian Operations and US Operations Cash Generating Units ("identified CGUs") – Refer to Notes 3 and 7 to the financial statements.

Key Audit Matter Description

The Company's evaluation of goodwill for impairment is performed annually or if there is any indication of impairment and involves the comparison of the estimated recoverable amount of each identified CGU to its carrying value. The estimated recoverable amount of each identified CGU was based on their value in use, but also considered market multiples. This required management to make significant estimates and assumptions related to discount rates, future revenue and revenue growth or decline rates, and gross margin assumptions. Changes in these assumptions could have a significant impact on either the recoverable amount, the amount of any goodwill impairment charge, or both. During the first quarter of 2020, the carrying amounts of the identified CGUs exceeded their recoverable amounts, which resulted in an impairment charge to goodwill. As a result, the balance of goodwill in the Canadian Operations CGU and the US Operations CGU is nil and $51M, respectively. At December 31, 2020, the recoverable amount of the US Operations CGU exceeded its carrying amount and no other impairments to goodwill were recognized.

While there are several key assumptions that are required to estimate the recoverable amount of the identified CGUs, the assumptions with the highest degree of subjectivity and impact on the recoverable amounts are related to discount rates, future revenue and revenue growth or decline rates, and gross margin assumptions. This required a high degree of auditor attention as these estimates are subject to estimation uncertainty. Auditing these estimates and assumptions required auditor judgment in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the discount rates, future revenue and revenue growth or decline rates, and gross margin assumptions used to estimate the recoverable amounts of the identified CGUs included the following, among others:

- Evaluated management's ability to accurately forecast future revenue and revenue growth or decline rates, and gross margin assumptions by comparing actual results to management's historical forecasts.

- Evaluated the reasonableness of management's future revenue, revenue growth or decline rates, and gross margin assumptions by comparing the forecasts to:
    - Historical revenue, revenue growth or decline rates, and gross margins;
    - Third-party industry data points; and
    - Whether these assumptions were consistent with evidence obtained in other areas of the audit.

- With the assistance of fair value specialists:
    - Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the management's discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management; and
    - Assessed management's estimate of the recoverable amount by comparing management's implied valuation multiple to market multiples for comparable entities.

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

- Management's Discussion and Analysis

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

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

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

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

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

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

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

in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

March 11, 2021

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

	As at	
	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	**18,251**	—
Accounts receivable (note 20)	**159,113**	257,480
Income taxes receivable (note 15)	**1,192**	88
Inventory (note 4)	**178,558**	220,472
Prepaid expenses and deposits	**16,425**	21,780
	373,539	499,820
Property and equipment (note 5)	**274,159**	301,874
Right of use assets (note 6)	**40,280**	52,739
Intangible assets (note 7)	**46,913**	61,410
Deferred income tax asset (note 15)	**57,424**	2,918
Other assets (note 8)	**14,831**	12,054
Goodwill (note 7)	**50,742**	288,957
	857,888	1,219,772
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**79,979**	127,071
Financial derivative liability (note 20)	**1,111**	78
Dividends payable (note 18)	—	1,320
Income taxes payable (note 15)	**885**	1,573
Current portion of deferred acquisition consideration	—	150
Current portion of lease obligations (note 10)	**19,152**	21,766
	101,127	151,958
Long-term debt (note 9)	**284,685**	362,785
Lease obligations (note 10)	**13,260**	23,080
Deferred income tax liability (note 15)	**2,322**	2,639
Other long-term liabilities (note 17)	**831**	—
	402,225	540,462
Commitments (note 19)		
Shareholders' equity		
Common shares (note 16)	**663,275**	660,174
Contributed surplus	**38,052**	42,686
Deficit	**(391,680)**	(165,829)
Accumulated other comprehensive income	**146,016**	142,279
	455,663	679,310
	857,888	1,219,772

APPROVED ON BEHALF OF THE BOARD:

"Thomas J. Simons"
Thomas J. Simons
President & Chief Executive Officer Director

"Philip J. Scherman"
Philip J. Scherman
Director & Chairman, Audit Committee

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

CES Energy Solutions Corp.
Consolidated Statements of Net (Loss) Income and Comprehensive Loss
(stated in thousands of Canadian dollars, except per share amounts)

	Year Ended December 31,	
	2020	2019
Revenue	**888,047**	1,277,257
Cost of sales (note 12)	**722,432**	1,003,880
Gross margin	**165,615**	273,377
General and administrative expenses (note 13)	**169,350**	203,290
Operating (loss) profit	**(3,735)**	70,087
Finance costs (note 14)	**24,864**	27,999
Impairment of goodwill (note 7)	**248,905**	—
Other (gain) loss	**(703)**	138
(Loss) income before taxes	**(276,801)**	41,950
Current income tax expense (note 15)	**2,342**	3,784
Deferred income tax expense (recovery) (note 15)	**(56,240)**	8,060
Net (loss) income	**(222,903)**	30,106
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss):		
Unrealized foreign exchange (loss) gain on translation of foreign operations	**3,111**	(37,353)
Change in fair value of other assets, net of tax	**626**	389
Comprehensive loss	**(219,166)**	(6,858)
Net (loss) income per share (note 16)		
Basic	**(0.85)**	0.11
Diluted	**(0.85)**	0.11

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

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

	Year Ended December 31,	
	2020	2019
COMMON SHARES		
Balance, beginning of year	**660,174**	651,116
Issued pursuant to stock-based compensation (note 17)	**14,302**	22,144
Issued pursuant to stock settled director fees	**50**	60
Common shares repurchased and canceled through NCIB (note 16)	**(11,251)**	(13,146)
Balance, end of year	**663,275**	660,174
CONTRIBUTED SURPLUS		
Balance, beginning of year	**42,686**	47,204
Reclassified pursuant to stock-based compensation (note 16)	**(14,302)**	(22,144)
Stock-based compensation expense (note 17)	**9,668**	17,626
Balance, end of year	**38,052**	42,686
DEFICIT		
Balance, beginning of year	**(165,829)**	(179,993)
Net (loss) income	**(222,903)**	30,106
Dividends declared (note 18)	**(2,948)**	(15,942)
Balance, end of year	**(391,680)**	(165,829)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**142,279**	179,243
Unrealized foreign exchange gain (loss) on translation of foreign operations	**3,111**	(37,353)
Change in fair value of other assets, net of tax	**626**	389
Balance, end of year	**146,016**	142,279
	455,663	679,310

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

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

	Year Ended December 31,	
	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net (loss) income	**(222,903)**	30,106
Adjustments for:		
Depreciation and amortization	**75,511**	76,450
Stock-based compensation (note 17)	**11,543**	17,626
Other non-cash loss	**16,971**	2,498
Deferred income tax (recovery) expense (note 15)	**(56,240)**	8,060
Gain on disposal of assets	**(1,252)**	(1,914)
Gain on repurchase of senior unsecured notes	**(182)**	(498)
Impairment of goodwill	**248,905**	—
Change in non-cash working capital (note 22)	**84,326**	54,976
	156,679	187,304
FINANCING ACTIVITIES:		
Repurchase of senior unsecured notes (note 9)	**(1,818)**	(8,548)
Repayment of lease obligations	**(23,235)**	(21,668)
Decrease in Senior Facility	**(79,563)**	(84,630)
Shareholder dividends	**(4,268)**	(15,951)
Common shares repurchased and cancelled through NCIB (note 16)	**(11,251)**	(13,146)
	(120,135)	(143,943)
INVESTING ACTIVITIES:		
Investment in property and equipment	**(24,575)**	(48,503)
Investment in intangible assets	**(1,181)**	(2,469)
Investment in other assets (note 8)	**(2,582)**	(7,549)
Deferred acquisition consideration	**(150)**	(370)
Proceeds on disposal of assets	**11,603**	15,530
	(16,885)	(43,361)
Effect of foreign exchange on cash	**(1,408)**	—
CHANGE IN CASH	**18,251**	—
Cash, beginning of year	**—**	—
Cash, end of year	**18,251**	—
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**23,346**	27,383
Income taxes paid	**4,159**	3,556

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

1. The Company

CES Energy Solutions Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 332 – 6th Avenue SW, Calgary, Alberta, Canada T2P 0B2. The consolidated financial statements of the Company as at and for the years ended December 31, 2020 and 2019 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company" or "CES").

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

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 11, 2021.

Basis of measurement

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

Functional and presentation currency

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

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

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

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

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

c) Property and equipment

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

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

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

Land & buildings	0-20 years
Vehicles, trucks, and transportation equipment	3-25 years
Machinery and equipment	1-20 years
Office & computer equipment	1-10 years

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

d) Leases and ROU Assets

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

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

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

e) Identifiable intangible assets

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

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

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

f) Goodwill

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

g) Impairment

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is an indication of impairment, then the asset's recoverable amount is estimated.

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

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

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

h) Provisions

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

i) Revenue recognition

The Company's revenue is comprised of the sale of products and the provision of services. Revenue on the sale of products is recognized as the Company satisfies the performance obligations with its customers over time as they consume products. Transaction prices are determined based on the agreed upon prices with customers for CES' goods and services at the time contracts are entered into. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money, and expenses any incremental costs of obtaining contracts with customers as incurred. Revenue on the provision of services is recognized as the services are performed, when the price is fixed and determinable, and collection is reasonably assured. The Company's contract terms do not include a provision for significant post-service delivery obligations.

j) Stock-based compensation

Equity settled transactions

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

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

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

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

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

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

Deferred income tax expense and recoveries are recognized in respect of unused tax losses and tax credits as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates, which are expected to apply to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.
A deferred income tax liability is generally recognized for all taxable temporary differences. Deferred income tax liabilities are not recognized on the following:

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

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

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

n) Financial instruments

Classification and Measurement of Financial Instruments

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

Amortized Cost

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

FVTPL

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

FVTOCI

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

Fair value measurement

CES classifies the fair value of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The fair value of the risk management contracts are estimated based on the mark-to-market method of accounting, using publicly quoted market prices or, in their absence, third-party market indications and forecasts priced on the last trading day of the applicable period.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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

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

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

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

r) Significant accounting judgments and estimates
The preparation of the consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates, which by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. The current market conditions introduce additional uncertainties, risks and complexities in management's determination of the estimates and assumptions used to prepare CES' financial results. As the COVID-19 pandemic and volatility in financial markets is an evolving situation, management cannot reasonably estimate the length or severity of the impact on CES. As such, actual results may differ from estimates and the effect of such differences may be material. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2020, was $425,596 (2019 - $603,961). During the year ended December 31, 2020, the Company recorded $14,276 of inventory valuation write-downs primarily due to certain commodity based products that were revalued to net realizable value to reflect current prices (2019 - $nil).

5. Property and Equipment

Property and equipment are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Office & computer equipment	Total
Cost:					
Balance at December 31, 2019	177,279	119,377	186,173	15,852	498,681
Additions	8,196	4,006	10,143	1,344	23,689
Disposals	(2,003)	(9,924)	(6,788)	(1,777)	(20,492)
Effect of movements in exchange rates	(2,705)	(1,781)	(2,826)	(217)	(7,529)
Balance at December 31, 2020	180,767	111,678	186,702	15,202	494,349
Amortization:					
Balance at December 31, 2019	42,635	66,227	75,541	12,404	196,807
Amortization for the year(1)	10,398	13,696	14,954	1,893	40,941
Disposals	(1,110)	(5,595)	(5,259)	(1,543)	(13,507)
Effect of movements in exchange rates	(867)	(1,476)	(1,516)	(192)	(4,051)
Balance at December 31, 2020	51,056	72,852	83,720	12,562	220,190
Carrying amount at December 31, 2020	**129,711**	**38,826**	**102,982**	**2,640**	**274,159**

[1]Included in accumulated depreciation for the year ended December 31, 2020 is $245 that has been allocated to inventory

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

[1]Included in accumulated depreciation for the year ended December 31, 2019 is $243 that has been allocated to inventory

[2]Transfer to ROU assets due to the adoption of IFRS 16 on January 1, 2019

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

6. Right of Use Assets

Right of use assets are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Intangible ROU assets	Total
Cost:					
Balance at December 31, 2019	20,658	56,958	4,310	—	81,926
Additions	3,121	7,248	531	446	11,346
Disposals	(857)	(11,851)	(218)	—	(12,926)
Effect of movements in exchange rates	(331)	(658)	6	(39)	(1,022)
Balance at December 31, 2020	22,591	51,697	4,629	407	79,324
Amortization:					
Balance at December 31, 2019	4,940	22,535	1,712	—	29,187
Amortization for the year	5,913	13,139	307	70	19,429
Disposals	(726)	(8,066)	(16)	—	(8,808)
Effect of movements in exchange rates	(247)	(512)	(3)	(2)	(764)
Balance at December 31, 2020	9,880	27,096	2,000	68	39,044
Carrying amount at December 31, 2020	**12,711**	**24,601**	**2,629**	**339**	**40,280**

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

On adoption of IFRS 16 on January 1, 2019, all assets previously categorized as finance leases under IAS 17 and included in property and equipment were reclassified to ROU assets.

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

7. Intangible Assets and Goodwill

	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2019	102,354	27,605	65,441	195,400	288,957
Additions	—	1,083	1,225	2,308	—
Disposals	—	—	(1,136)	(1,136)	—
Impairment	—		—	—	(248,905)
Effect of movements in exchange rates	(1,390)	(589)	(609)	(2,588)	10,690
Balance at December 31, 2020	100,964	28,099	64,921	193,984	50,742
Amortization:					
Balance at December 31, 2019	74,387	18,923	40,680	133,990	—
Amortization for the year	5,646	3,362	6,362	15,370	—
Disposals	—	—	—	—	—
Effect of movements in exchange rates	(1,237)	(341)	(711)	(2,289)	—
Balance at December 31, 2020	78,796	21,944	46,331	147,071	—
Carrying amount at December 31, 2020	**22,168**	**6,155**	**18,590**	**46,913**	**50,742**

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

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's CGUs, which represent the lowest level within the Company at which the goodwill is monitored. Goodwill is allocated to the Company's CGUs as follows:

	Canadian Operations	US Operations [1]	Total
Balance at December 31, 2019	**79,589**	**209,368**	**288,957**
Impairment of goodwill	(79,589)	(169,316)	(248,905)
Effect of movements in exchange rates	—	10,690	10,690
Balance at December 31, 2020	—	**50,742**	**50,742**

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

At March 31, 2020, the Company noted indicators of impairment due to the significant decline in commodity prices and the resulting reduction in demand for the Company's products and services. The Company's impairment analysis indicated that the recoverable amount of the net assets for each CGU did not exceed its respective carrying value and resulted in goodwill impairment of $248,905. For the March 31, 2020 impairment analysis, the recoverable amount of the net assets for each CGU was based on their value in use and was estimated to be US$475,180 for the US Operations CGU and $253,256 for the

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Canadian Operations CGU. The key assumptions for the value in use calculations were the expected growth rates in future cash flows and the discount rates. At March 31, 2020 an estimated risk adjusted, pre-tax discount rate of 13.5% and 14.1% (December 31, 2019 - 13.5% and 13.7%) was used for the US Operations CGU and Canadian Operations CGU, respectively. For both CGUs, the Company used a 2.0% terminal growth rate (December 31, 2019 - 2.0%). The Company prepared cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 29% in 2020 to positive 21% in later years for the US Operations CGU and a range of negative 21% in 2020 to positive 21% in later years for the Canadian Operations CGU.

The Company's impairment analysis as of December 31, 2020, indicated that the recoverable amount of the net assets for the US Operations CGU exceeded its respective carrying value and, therefore, no additional impairment was required. The recoverable amount of the CGU was based on its value in use and the key assumptions for the value in use calculations were the expected growth rates in future cash flows and the discount rates. At December 31, 2020 an estimated risk adjusted, pre-tax discount rate of 13.5% (December 31, 2019 - 13.5%) was used. The Company prepares cash flow forecasts for the purposes of the impairment analysis for a five year period using growth rates that range from positive 5% to positive 21% for the US Operations CGU. The Company used a 2.0% terminal growth rate (December 31, 2019 - 2.0%).

8. Other Assets

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

	As at	
	December 31, 2020	December 31, 2019
Fixed income securities, with maturities due:		
Less than 1 year	**4,518**	4,013
1-5 years	**4,743**	4,032
Greater than 5 years	**1,355**	990
	10,616	9,035
Cash and cash equivalents	**1,350**	252
Equities	**2,865**	2,767
Other assets	**14,831**	12,054

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

Certain of these investments in the amount of $1,731 (December 31, 2019 - $979) have been pledged as collateral for letters of credit by the banker of the Company’s captive insurance company in favor of the underwriting companies.

9. Long-Term Debt

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

	As at	
	December 31, 2020	December 31, 2019
Senior Facility	—	77,341
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**288,954**	290,954
	288,954	368,295
Less: unamortized debt issue costs	**(4,269)**	(5,510)
Long-term debt	**284,685**	362,785

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

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

As at December 31, 2020, the Company had a net cash balance of $18,251 (December 31, 2019 - net draw of $76,725). As such, at December 31, 2020, CES' Senior Facility was fully accessible with a maximum draw of $170,000 on the Canadian facility and US$50,000 on the US facility.

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

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

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

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

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

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

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

	As at	
	December 31, 2020	December 31, 2019
Net Senior Debt	**2,456**	107,812
EBITDA for the year ended	**92,327**	159,980
Ratio	**0.027**	0.674
Maximum	**2.500**	2.500
EBITDA for the year ended	**92,327**	159,980
Interest Expense for the year ended	**22,155**	26,226
Ratio	**4.167**	6.100
Minimum	**2.500**	2.500

Senior Notes

During the year ended December 31, 2020, the Company repurchased and canceled $2,000 of its Senior Notes for an aggregate purchase price of $1,818 resulting in a gain of $182 recorded against finance costs. As at December 31, 2020, the Company had $288,954 of remaining outstanding principal on its Senior Notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable semi-annually on April 21 and October 21. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2021. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

Subsequent to December 31, 2020, on January 12, 2021, the Company repurchased and canceled $1,000 of its Senior Notes for an aggregate purchase price of $988 resulting in a gain of $12 recorded against finance costs.

As at December 31, 2020, the Company was in compliance with the terms and covenants of its lending agreements. For the year ended December 31, 2020, the Company recorded $24,228 (2019 - $28,509) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments on the Company's long-term debt at December 31, 2020, are as follows:

2021	—
2022	—
2023	—
2024	288,954
2025	—
2026 and thereafter	—
	288,954

10. Leases

The Company incurs lease payments under a number of lease arrangements for which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements, which includes the assessment of the appropriate durations for the related leased assets. The Company's leases are for terms ranging from January 2021 through February 2030 with a weighted average interest rate of 5.57% (2019 - 5.37%).

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

As at December 31, 2019	**44,846**
Additions	**11,302**
Interest expense	**2,217**
Lease payments	**(25,448)**
Effects of movements in exchange rates	**(505)**
As at Dec 31, 2020	**32,412**
Current portion of lease obligation	**19,152**
Long-term portion of lease obligation	**13,260**

Future minimum lease payments outstanding under the Company's lease obligations at December 31, 2020 are as follows:

Less than 1 year	**20,214**
1-5 years	**12,833**
5+ years	**1,635**
Total lease payments	**34,682**
Amount representing implicit interest	**(2,270)**
Lease obligations	**32,412**

Payments recognized in the financial statements relating to short-term leases, variable lease payments, and leases of low-value assets for the year ended December 31, 2020 were $3,450 (2019 - $4,331). The Company's short-term leases, variable lease payments, and leases of low-value assets consist of leases of information technology, office equipment, and short-term facility rentals.

11. Government Grants

During the year ended December 31, 2020, the Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program and recognized $14,735 (2019 - $nil) as a reduction to wage expense, with an allocation of $7,700 and $7,035 to cost of sales and general and administrative expenses, respectively.

12. Cost of Sales

Included in cost of sales for the year ended December 31, 2020, is depreciation charged on property and equipment and ROU assets of $51,724 (2019 – $51,864) and employee compensation and benefits of $153,168 (2019 – $193,825), excluding the benefit of the CEWS.

13. General and Administrative Expenses

Included in general and administrative expenses for the year ended December 31, 2020, is depreciation charged on property and equipment and ROU assets, and amortization charged on intangible assets of $23,787 (2019 – $24,587), stock-based compensation of $11,543 (2019 – $17,626), and employee compensation and benefits of $78,887 (2019 – $92,342), excluding the benefit of the CEWS. For the year ended December 31, 2019, included in general and administrative expenses was a one-time executive related severance cost of $2,963.

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

14. Finance Costs

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

	Year Ended December 31,	
	2020	2019
Interest on debt, net of interest income	**22,869**	27,288
Amortization of debt issue costs and premium	**1,241**	1,319
Foreign exchange gain	**(1,579)**	(180)
Financial derivative loss	**2,515**	34
Gain on repurchase of senior unsecured notes	**(182)**	(498)
Other finance costs	**—**	36
Finance costs	**24,864**	27,999

15. Income Taxes

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

	Year Ended December 31,	
	2020	2019
Current income tax expense		
Current year income tax expense	**3,066**	3,839
Prior year income tax expense adjustment	**(724)**	(55)
Current income tax expense	**2,342**	3,784
Deferred income tax expense		
Origination and reversal of temporary differences	**(56,407)**	8,140
Changes in tax rates (1)	**255**	3
Prior year income tax expense adjustment	**(88)**	(83)
Deferred income tax (recovery) expense	**(56,240)**	8,060
Income tax (recovery) expense	**(53,898)**	11,844

[1]*During 2019, the Alberta government enacted legislation, which reduced the Alberta corporate tax rate from 12% to 8% over the period July 1, 2019 through January 1, 2022. As part of the province of Alberta's economic recovery plan released on June 29, 2020, the Alberta government accelerated the provincial corporate income tax rate reduction to 8% effective July 1, 2020.*

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

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

	Year Ended December 31,	
	2020	2019
Income before taxes	**(276,801)**	41,949
Combined Canadian statutory rate	**24.90 %**	26.64 %
Provision for income taxes computed at the Canadian statutory rate	**(68,921)**	11,175
Effects on taxes resulting from:		
Non-deductible expenses	**1,234**	2,282
Stock-based compensation	**3,464**	3,637
Deductions for tax in excess of accounting, net	**2,432**	1,997
Goodwill impairment	**9,971**	(175)
Adjustment of prior year taxes	**(824)**	—
Non-taxable capital gain	**103**	(66)
Income tax in jurisdictions with different tax rates	**(787)**	807
Foreign exchange gain	**2,410**	(183)
Change in unrecognized deferred income tax asset	**(3,236)**	(7,633)
Change in statutory rate	**255**	3
Income tax expense	**(53,899)**	11,844

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

	As at	
	December 31, 2020	December 31, 2019
Property and equipment	**(36,454)**	(38,611)
Goodwill and other intangible assets	**27,387**	(2,406)
Financing costs and other tax credits	**(601)**	(2)
Other temporary differences	**12,303**	13,140
Non-capital losses	**61,322**	34,360
Capital losses	**1,185**	1,313
Unrecognized tax benefit, net	**(10,040)**	(7,515)
Net deferred income tax asset	**55,102**	279
Deferred income tax asset	**57,424**	2,918
Deferred income tax liability	**(2,322)**	(2,639)

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

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

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

	Year Ended December 31, **2020**	2019
Deferred income tax liabilities:		
Charged (credited) to earnings	**9,078**	(3,023)
	9,078	(3,023)
Deferred income tax assets:		
Charged (credited) to earnings	**47,162**	10,965
Charged (credited) to equity	**(1,417)**	469
	45,745	11,434
Net Movement	**54,823**	8,411

No deferred tax liability has been recognized as at December 31, 2020 on temporary differences associated with investments in subsidiaries where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

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

	As at December 31, 2020	Expiration Date
Canada:		
Non-capital losses	**59,455**	2031-2040
Net capital losses	**9,796**	Indefinite
United States:		
Non-capital losses	**187,032**	After 2034
Luxembourg:		
Operating losses	**790**	2034-2037
Hungary:		
Operating losses	**63**	2025

As at December 31, 2020, there are unrecognized deferred income tax assets relating to capital and non-capital losses of $5,342 (2019 - $7,515), other financing costs of $nil (2019 - $4,925), goodwill of $18,754 (2019 - $nil) and investment tax credits of $1,031 (2019 - $853). These have not been recognized due to the uncertainty over recoverability of these respective deferred tax assets.

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

16. Share Capital

a) Authorized

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

b) Issued and outstanding

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

	Year Ended December 31, 2020		Year Ended December 31, 2019	
Common Shares	**Number of Shares**	**Amount**	Number of Shares	Amount
Balance, beginning of year	**263,956,291**	**660,174**	265,886,609	651,116
Issued pursuant to stock-based compensation	**3,699,275**	**—**	3,847,713	—
Contributed surplus related to stock-based compensation	**—**	**14,302**	—	22,144
Issued pursuant to stock settled director fee	**49,868**	**50**	23,672	60
Common shares repurchased and canceled through NCIB	**(9,440,577)**	**(11,251)**	(5,801,703)	(13,146)
Balance, end of year	**258,264,857**	**663,275**	263,956,291	660,174

Normal Course Issuer Bid ("NCIB")

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

Since the July 16, 2020 commencement of the Company's current NCIB program, the Company repurchased 7,115,300 common shares up to December 31, 2020, at an average price of $0.91 per share for a total amount of $6,446,128.

Since inception of the Company's NCIB programs on July 17, 2018, and up to December 31, 2020, the Company has repurchased 20,042,180 common shares at an average price of $2.19 per share for a total amount $43,929. For the year ended December 31, 2020 the Company repurchased 9,440,577 common shares at an average price of $1.19 for a total amount of $11,251.

Subsequent to December 31, 2020, the Company repurchased 5,356,700 additional shares at a weighted average price of $1.46 for a total of $7,827.

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

c) Net income per share

In calculating the basic and diluted net (loss) income per share for the year ended December 31, 2020 and 2019, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
	2020	2019
Net (loss) income	**(222,903)**	30,106
Weighted average number of shares outstanding:		
Basic shares outstanding	**263,065,652**	265,956,626
Effect of dilutive shares	—	6,648,346
Diluted shares outstanding	**263,065,652**	272,604,972
Net (loss) income per share - basic	**($0.85)**	$0.11
Net (loss) income per share - diluted	**($0.85)**	$0.11

Excluded from the calculation of dilutive shares for the year ended December 31, 2020 are 7,208,341 of Share Rights (2019 - 10,918,080) that are considered anti-dilutive.

17. Stock-Based Compensation

For the year ended December 31, 2020, stock-based compensation expense of $11,543 (2019 – $17,626) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans. As at December 31, 2020, a total of 12,913,243 common shares were reserved for issuance under the Company's Restricted Share Unit Plan and Stock Settled Director Fee Program, of which 4,481,154 common shares remained available for grant.

a) Restricted Share Unit ("RSU") Plan

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

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

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**6,411,540**	**$3.79**	6,267,482	$6.03
Granted during the year	**5,941,372**	**0.93**	4,542,907	2.52
Reinvested during the year	**72,224**	**3.52**	169,009	4.51
Vested during the year	**(3,699,275)**	**3.87**	(3,847,713)	5.76
Forfeited during the year	**(293,773)**	**3.63**	(720,145)	4.96
Balance, end of year	**8,432,088**	**$1.77**	6,411,540	$3.79

The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the year ended December 31, 2020, was reduced by an estimated weighted average forfeiture rate of 0.12% per year at the date of grant.

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

b) Phantom Share Unit ("PSU") Plan

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

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

	Year Ended December 31, 2020
	Phantom Share Units
Balance, beginning of year	—
Granted during the year	**4,829,781**
Forfeited during the year	**(102,986)**
Balance, end of year	**4,726,795**

The stock-based compensation expense recorded for the year ended December 31, 2020, was reduced by an estimated weighted average forfeiture rate of 3.175% per year at the date of grant.

Included in the stock-based compensation expense for the year ended December 31, 2020 is an expense of $1,875 (2019 - $nil) relating to the Company's PSU Plan. As at December 31, 2020, $1,044 was included in accounts payable and accrued liabilities and $831 was included in other long-term liabilities for outstanding PSUs.

c) Share Rights Incentive Plan ("SRIP")

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

A summary of changes under the SRIP is presented below:

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**9,787,645**	**$5.89**	12,333,645	$6.29
Expired during the year	**(3,816,000)**	**6.92**	(1,179,000)	10.09
Forfeited during the year	**(627,245)**	**5.78**	(1,367,000)	5.93
Balance, end of year	**5,344,400**	**$5.17**	9,787,645	$5.89
Exercisable Share Rights, end of year	**5,339,400**	**$5.16**	8,856,645	$5.88

As at December 31, 2020, the exercise prices for the outstanding Share Rights under the Company's SRIP range from $3.10 to $7.55 with a remaining weighted average term of 1.04 years.

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

18. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2020, as follows:

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

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

19. Commitments

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

Less than 1 year	2,713
1-5 years	138
5+ years	—
Total	**2,851**

Payments denominated in foreign currencies have been translated using the December 31, 2020 exchange rate

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

20. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

The Company's financial assets and liabilities consist of accounts receivable, deposits, accounts payable and accrued liabilities, dividends payable, lease obligations, long-term debt, and deferred acquisition consideration. The carrying values of accounts receivable, deposits, accounts payable and accrued liabilities, other long-term liabilities, and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt, excluding the Senior Notes, and lease obligations where interest is charged at a fixed rate is not significantly different than fair value.

The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on December 31, 2020. At December 31, 2020, the estimated fair value of the Senior Notes was $287,481 (December 31, 2019 - $290,752) and is based on level 2 inputs as the inputs are observable through correlation with market data.

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

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

	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2020					
Financial derivative liability	(1,111)	(1,111)	—	(1,111)	—
Other assets	14,831	14,831	14,831	—	—
	13,720	13,720	14,831	(1,111)	—
As at December 31, 2019					
Financial derivative liability	(78)	(78)	—	(78)	—
Other assets	12,054	12,054	12,054	—	—
	11,976	11,976	12,054	(78)	—

b) Credit risk

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

	As at	
	December 31, 2020	December 31, 2019
Trade receivables	**120,554**	198,180
Allowance for doubtful accounts	**(3,783)**	(2,333)
Total trade receivables	**116,771**	195,847
Accrued revenue	**37,499**	57,357
Other receivables	**4,843**	4,276
Total trade and other receivables	**159,113**	257,480

The company uses an expected credit loss model in determining provisions for trade and other receivables that measures lifetime expected credit losses based on historical loss rates, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. An analysis of accounts receivable is as follows:

	As at	
	December 31, 2020	December 31, 2019
0-30 days	**68,661**	103,995
31-60 days	**33,190**	60,541
61-90 days	**10,268**	19,094
91-120 days	**2,761**	7,113
121+ days	**5,674**	7,437
Total past due	**120,554**	198,180

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

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

	As at	
	December 31, 2020	December 31, 2019
Balance, beginning of year	**2,333**	2,378
Additional allowance	**3,559**	310
Amounts collected	**(1,353)**	(17)
Amounts used	**(616)**	(247)
Effect of movements in exchange rates	**(140)**	(91)
Balance, end of year	**3,783**	2,333

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2020, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $273 lower/higher for the respective year ended December 31, 2020 (2019 - $621 lower/higher).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises primarily from its working capital balances denominated in foreign currencies and on the investment in its foreign operations. The Company uses the USD as its functional currency in its US operations and in its other foreign jurisdictions. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2020, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to increase/decrease net income by approximately $1,672 (2019 - decrease/increase $653).

At December 31, 2020, the Company had US$32,500 million outstanding in CAD forward purchase contracts at a weighted average exchange rate of $1.3053, maturing in January 2021, as a result of USDCAD swaps entered into in November 2020, which allowed the company to utilize excess USD cash flow to pay down previously outstanding CAD draws on the Senior Facility.

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

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

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

	Year Ended December 31,	
	2020	2019
Realized financial derivative loss (gain)	**1,482**	(314)
Unrealized financial derivative loss	**1,033**	348
Financial derivative loss	**2,515**	34

At December 31, 2020, a favourable or unfavourable 1% change in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase or decrease, respectively, to net income of $2,708 (2019 - $156).

e) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events, which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas, which impact overall activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2020, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by ensuring it has access to multiple sources of capital and through prudent management of its operational cash flows. As at December 31, 2020, the Company had net cash of $18,251, and $162,000 and US$50,000 available on its Canadian and US Senior Facility, respectively, which matures on September 28, 2022. The Company believes it has sufficient liquidity through the use of its Senior Facility and operational cash flows.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2020:

	Payments Due By Period (1)					
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	79,979	—	—	—	—	**79,979**
Income taxes payable	—	885	—	—	—	**885**
Senior Notes (2)	—	—	—	288,954	—	**288,954**
Interest on Senior Notes	—	18,421	18,421	36,842	—	**73,684**
Lease obligations (3)	3,280	15,872	8,095	3,724	1,441	**32,412**
Commitments (4)	926	1,787	138	—	—	**2,851**
Other long-term liabilities		—	510	321	—	**831**
	84,185	36,965	27,164	329,841	1,441	**479,596**

Notes:

1 Payments denominated in foreign currencies have been translated using the December 31, 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.

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

21. Capital Management

The overall capitalization of the Company is as follows:

	As at	
	December 31, 2020	December 31, 2019
Long-term debt [(1)] (note 9)	**288,954**	368,295
Shareholders' equity	**455,663**	679,310
Total capitalization	**744,617**	1,047,605

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

For the year ended December 31, 2020, the Company considers capital to include shareholders' equity and long-term debt. The Company's objectives when managing capital are to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions; as well as to maintain creditor and shareholder confidence.

The Company's overall capital management strategy remains unchanged in 2020. Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, CES may adjust the level of dividends paid to shareholders, issue or repurchase shares, repurchase senior notes, dispose of assets, repay debt, or incur new debt.

In addition to monitoring the external financial covenants as detailed in Note 9, the Company manages capital by analyzing working capital levels, forecasted cash flows, planned investments in property and equipment, and general economic conditions. The Company is subject to certain financial covenants in its credit facility and Senior Notes indenture. As at December 31, 2020, the Company is in compliance with all of the financial requirements under all its lending agreements.

22. Supplemental Information

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

	Year Ended December 31,	
	2020	2019
(Increase) decrease in current assets		
Accounts receivable (includes income taxes receivable)	**93,470**	55,215
Inventory	**29,631**	18,031
Prepaid expenses and deposits	**5,355**	(8,345)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities (includes income taxes payable)	**(49,168)**	603
Effects of movement in exchange rate	**3,411**	(13,782)
	82,699	51,722
Relating to:		
Operating activities	**84,326**	54,976
Investing activities	**(1,626)**	(3,254)

For the year ended December 31, 2020 and 2019, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

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

23. Geographical Information

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

	Revenue	
	Year Ended December 31,	
	2020	2019
United States	**600,898**	906,377
Canada	**287,149**	370,880
	888,047	1,277,257

	Long-Term Assets (1)	
	December 31, 2020	December 31, 2019
United States	**295,722**	491,547
Canada	**131,203**	225,487
	426,925	717,034

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

24. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2020, remuneration of $11,069 included $6,203 of salaries and cash-based compensation and $4,866 of stock-based compensation costs (2019 – $6,043 and $6,755, respectively). During the year ended December 31, 2019, the Company recorded general and administrative expenses of $2,963 in respect of one-time executive-related severance costs.

During the year ended December 31, 2020, CES paid rent of $27 (2019 - $57) 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.

25. Significant Subsidiaries

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

Subsidiary Name	Country of Incorporation	Ownership Interest %	
		December 31, 2020	December 31, 2019
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

26. Economic Dependence

For the year ended December 31, 2020, one customer accounted for 11% (2019 – 13%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

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Thomas J. Simons

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[2]Member of the Compensation, Corporate Governance and Nominating Committee
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