

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the three and nine months ended September 30, 2022 and 2021, and CES' 2021 Annual Information Form. Readers should also refer to the "Forward-looking Information & Statements" legal advisory and the sections regarding "Non-GAAP Measures and Other Financial Measures" and "Operational Definitions" at the end of this MD&A. This MD&A is dated November 10, 2022, and incorporates all relevant Company information to that date. Amounts are stated in Canadian dollars unless otherwise noted.

## USE OF NON-GAAP MEASURES AND OTHER FINANCIAL 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 CES' financial performance, financial position and cash flow. These non-GAAP measures and other financial measures do not have a standardized meaning prescribed under International Financial Reporting Standards ("IFRS"), and therefore may not be comparable to similar measures presented by other entities. Securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their most closely comparable GAAP measure. Please refer to the section titled "Non-GAAP Measures and Other Financial Measures" for further information on the definition, calculation and reconciliation of the non-GAAP measures and other 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. Key solutions include corrosion inhibitors, demulsifiers, H<sub>2</sub>S 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<sub>2</sub>S.

CES operates in all major basins throughout the United States ("US"), including the 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"), Proflow Solutions ("Proflow"), 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").

## FINANCIAL HIGHLIGHTS

(\$000s, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	%Change	2022	2021	%Change
Revenue						
United States <sup>(1)</sup>	<b>349,503</b>	196,966	77 %	<b>898,466</b>	540,270	66 %
Canada <sup>(1)</sup>	<b>175,214</b>	117,429	49 %	<b>461,182</b>	288,356	60 %
Total Revenue	<b>524,717</b>	314,395	67 %	<b>1,359,648</b>	828,626	64 %
Net income	<b>24,455</b>	13,372	83 %	<b>54,810</b>	25,161	118 %
<i>per share – basic</i>	<b>0.10</b>	0.05	82 %	<b>0.21</b>	0.10	118 %
<i>per share - diluted</i>	<b>0.09</b>	0.05	84 %	<b>0.21</b>	0.10	119 %
Adjusted EBITDAC <sup>(2)</sup>	<b>73,289</b>	42,035	74 %	<b>176,773</b>	108,398	63 %
Adjusted EBITDAC <sup>(2)</sup> % of Revenue	<b>14.0 %</b>	13.4 %	0.6 %	<b>13.0 %</b>	13.1 %	(0.1)%
Cash provided by (used in) operating activities	<b>(16,258)</b>	(45,883)	(65)%	<b>(41,522)</b>	(34,899)	19 %
Funds Flow from Operations <sup>(3)</sup>	<b>48,868</b>	34,887	40 %	<b>128,128</b>	83,720	53 %
Capital expenditures						
Expansion Capital <sup>(1)</sup>	<b>10,489</b>	5,064	107 %	<b>21,266</b>	9,252	130 %
Maintenance Capital <sup>(1)</sup>	<b>4,491</b>	4,735	(5)%	<b>13,544</b>	7,996	69 %
Total capital expenditures	<b>14,980</b>	9,799	53 %	<b>34,810</b>	17,248	102 %
Dividends declared	<b>4,092</b>	4,078	— %	<b>12,269</b>	4,078	201 %
<i>per share</i>	<b>0.016</b>	0.016	— %	<b>0.048</b>	0.016	200 %
Common Shares Outstanding						
End of period	<b>255,728,104</b>	254,871,878		<b>255,728,104</b>	254,871,878	
Weighted average - basic	<b>256,246,967</b>	255,194,323		<b>255,288,039</b>	255,109,710	
Weighted average - diluted	<b>262,332,402</b>	263,284,730		<b>261,758,242</b>	263,608,982	

<i>Financial Position (\$000s)</i>	As at				
	September 30, 2022	June 30, 2022	%Change	December 31, 2021	%Change
Total assets	<b>1,392,967</b>	1,265,455	10 %	1,087,598	28 %
Long-term financial liabilities <sup>(4)</sup>	<b>543,787</b>	500,828	9 %	423,077	29 %
Total Debt <sup>(5)</sup>	<b>565,918</b>	521,246	9 %	439,392	29 %
Working Capital Surplus <sup>(5)</sup>	<b>666,109</b>	574,585	16 %	459,754	45 %
Net Debt <sup>(5)</sup>	<b>(100,191)</b>	(53,339)	88 %	(20,362)	392 %
Shareholders' equity	<b>584,205</b>	521,204	12 %	486,675	20 %

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

<sup>2</sup>Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Adjusted EBITDAC is Net income. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

<sup>3</sup>Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Funds Flow from Operations is Cash provided by (used in) operating activities. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

<sup>4</sup>Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, deferred acquisition consideration, and cash settled incentive obligations.

<sup>5</sup>Non-GAAP measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Total Debt, Net Debt, and Working Capital Surplus is Long-term financial liabilities. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

Highlights for the three and nine months ended September 30, 2022 in comparison to the three and nine months ended September 30, 2021 for CES are as follows:

- **Overview:** Revenue for the quarter hit another consecutive record high at \$524.7 million, representing a sequential increase of \$91.1 million or 21% relative to CES' previous record of \$433.7 million in Q2 2022 and an increase of \$210.3 million or 67% relative to Q3 2021. Adjusted EBITDAC for the quarter was a record \$73.3 million, compared to \$61.0 million in Q2 2022 and \$42.0 million in Q3 2021, as CES continues to realize significant revenue growth driven by increased pricing, scale and industry positioning throughout the business. Industry conditions continue to provide a supportive backdrop for the Company as the supply demand balance in the sector, activity levels, rig counts and production levels have all improved year over year. While cost inflation persists in many facets of the value chain, margin compression has been mitigated by the maintenance of prudent G&A levels and targeted pricing increases.
- **Revenue:** In the third quarter CES generated revenue of \$524.7 million, representing a sequential increase of \$91.1 million or 21% compared to Q2 2022, as the Company experienced revenue growth throughout the business and also benefited from the expected seasonal uptick in activity typically seen from Q2 to Q3 in Canada. Q3 2022 revenue also represented an increase of 67% compared to Q3 2021 as activity levels have seen a significant increase year over year. For the nine months ended September 30, 2022, CES generated revenue of \$1,359.6 million, an increase of \$531.0 million or 64% relative to the nine months ended September 30, 2021. As producers' capital spending increased and production levels have improved year over year, activity and industry rig counts have seen a significant uptick since the comparative periods, which were still highly impacted by the COVID-19 pandemic.
  - **Revenue - US:** Revenue generated in the US during Q3 2022 was \$349.5 million, representing a sequential increase of 16% compared to Q2 2022 and an increase of 77% compared to Q3 2021. For the nine months ended September 30, 2022, revenue generated in the US was up 66% to \$898.5 million relative to the nine months ended September 30, 2021. US revenues for both the three and nine month periods were positively impacted by increased industry activity, higher production levels and improved pricing year over year. US land drilling activity in Q3 2022 improved by 6% on a sequential quarterly basis and by 53% from Q3 2021. CES also saw a sequential and year over year improvement in its strong industry positioning, with a US Drilling Fluids Market Share of 18% for Q3 2022.
  - **Revenue - Canada:** Revenue generated in Canada during Q3 2022 was \$175.2 million, representing a sequential increase of 31% compared to Q2 2022 and an increase of 49% from Q3 2021. For the nine months ended September 30, 2022, revenue generated in Canada was up 60% to \$461.2 million relative to the nine months ended September 30, 2021. Canadian revenues were positively impacted by a 60% improvement in rig counts on a sequential quarterly basis with the regular pickup in activity expected seasonally in Canada, and benefited from a 31% increase in rig counts relative to Q3 2021, with drilling and production levels up year over year in both the three and nine month periods. Canadian Drilling Fluids Market Share for Q3 2022 was up on a sequential and year over year basis as well, at 37% for Q3 2022.
- **Adjusted EBITDAC:** CES achieved a record Adjusted EBITDAC of \$73.3 million in Q3 2022, representing a sequential increase of 20% compared to Q2 2022 and an increase of 74% compared to Q3 2021. Adjusted EBITDAC as a percentage of revenue of 14.0% achieved in Q3 2022 was in line with the 14.1% recorded in Q2 2022 and up from the 13.4% recorded in Q3 2021. The Company has been effective in implementing further pricing increases where warranted and maintaining prudent G&A levels, which combined with increased scale to deliver continued strong margins for Q3 2022. For the nine months ended September 30, 2022, Adjusted EBITDAC was up 63% to \$176.8 million. For both the three and nine month periods, Adjusted EBITDAC improved on significantly higher industry activity levels and improved pricing year over year.
- **Net Income:** Net income for the three months ended September 30, 2022 was \$24.5 million compared to \$13.4 million in Q3 2021. Net income for the nine months ended September 30, 2022 was \$54.8 million compared to \$25.2 million for the nine months ended September 30, 2021. Net income more than doubled for both periods, primarily as a result of significantly higher industry activity levels year over year. CES no longer recognized a benefit from the Canada Emergency Wage Subsidy ("CEWS") program in 2022, compared to \$0.7 million and \$5.6 million for the three and nine months ended September 30, 2021.
- **Funds Flow from Operations:** CES generated a record \$48.9 million in Funds Flow from Operations in Q3 2022, up 6.1% from \$46.1 million generated in Q2 2022 and 40.1% from \$34.9 million generated in Q3 2021. For the nine months ended September 30, 2022 CES generated Funds Flow from Operations of \$128.1 million, compared to \$83.7 million in the nine months ended September 30, 2021. Funds Flow from Operations excludes the impact of working capital investment, and is reflective of strong

surplus free cash flow generation amid significant improvements in market conditions in the quarter and year to date relative to the comparative periods.

- **Working Capital Surplus:** As at September 30, 2022, CES had a Working Capital Surplus of \$666.1 million, which has increased from \$574.6 at June 30, 2022 and from \$459.8 million at December 31, 2021. The build is commensurate with the increased financial scale of the Company and associated revenue growth, with accounts receivable increasing by 18% and inventory increasing by 16% from June 30, 2022, to support the 21% sequential growth in revenue and corresponding collection cycles. Working Capital Surplus was also impacted by the significant appreciation in the USD quarter over quarter, which contributed \$27.8 million to the build upon revaluation of working capital balances held in the US. The Company continues to focus on working capital optimization and to benefit from the high quality of its customers and diligent internal credit monitoring processes.
- **Total Debt and Working Capital Surplus:** CES exited the quarter with a net draw on its syndicated senior facility (the "Senior Facility") of \$220.8 million (December 31, 2021 - \$110.1 million), and Total Debt of \$565.9 million (December 31, 2021 - \$439.4 million), of which \$288.0 million relates to Senior Notes which mature on October 21, 2024. The increases realized during the period were primarily driven by required working capital build as described above, combined with dividends paid out year to date totaling \$12.2 million. During the nine months ended September 30, 2022, the Company amended its Senior Facility to increase the available capacity to approximately C\$ equivalent \$425.0 million from C\$ equivalent \$232.5 million, while all other terms and conditions remain substantively unchanged. Working Capital Surplus exceeded Total Debt at September 30, 2022 by \$100.2 million (December 31, 2021 - \$20.4 million). As at the date of this MD&A, the Company had a net draw on its Senior Facility of approximately \$218.0 million.

## OUTLOOK

The recovery in global energy demand combined with several years of lower investment in the upstream oil and gas sector have resulted in reduced inventories of oil and natural gas and higher commodity prices, providing a supportive outlook for the sector in CES' North American target market. Increased activity and demand have led to improved production levels, drilling activity and commodity prices. We expect current strong activity levels to continue through the balance of 2022 and into 2023, moderated by challenges with availability of labour and supply chain constraints. Further, broad economic concerns exist with respect to recession risk, rising interest rates and geopolitical instability, which may impact customer spending plans. CES is optimistic in its outlook for the remainder of the year and into next year as it expects to benefit from elevated upstream activity and continued strength in commodity pricing across North America by capitalizing on its established infrastructure, industry leading positioning, vertically integrated business model, and strategic procurement practices.

Commensurate with current record revenue levels, CES expects 2022 capital expenditures to be approximately \$50.0 million, of which \$25.0 million is maintenance and \$25.0 million is earmarked for expansion. CES plans to continue its disciplined and prudent approach to capital expenditures and will adjust its plans as required to support growth throughout divisions.

CES has proactively managed both the duration and the flexibility of its debt. In September 2021, CES successfully amended and extended its Senior Facility to September 2024. In light of the growth in activity and revenue levels seen through 2022 to date, during the year the Company proactively increased the available capacity on its Senior Facility to approximately C\$ equivalent \$425.0 million from C\$ equivalent \$232.5 million to support its growth trajectory. 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. To support growth in the business and related working capital needs CES routinely considers its capital structure, including further increasing the capacity of its Senior Facility, refinancing of the Company's Senior Notes, and other potential financing options.

CES' underlying business model is capex light and asset light, enabling generation of significant surplus free cash flow. As our customers endeavor to maintain or grow production in the current environment, CES will leverage its established infrastructure, business model, and nimble customer-oriented culture to deliver superior products and services to the industry. 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.

## RESULTS FOR THE PERIODS

### Revenue and Operating Activities

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

\$000s	Revenue					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
United States <sup>(1)</sup>	<b>349,503</b>	196,966	77 %	<b>898,466</b>	540,270	66 %
Canada <sup>(1)</sup>	<b>175,214</b>	117,429	49 %	<b>461,182</b>	288,356	60 %
	<b>524,717</b>	314,395	67 %	<b>1,359,648</b>	828,626	64 %

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

	Key Operating Metrics					
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
US	<b>28,796</b>	26,937	7 %	<b>28,209</b>	27,095	4 %
Canada	<b>7,044</b>	6,322	11 %	<b>6,924</b>	6,565	5 %
Total Treatment Points <sup>(1)</sup>	<b>35,840</b>	33,259	8 %	<b>35,133</b>	33,660	4 %
US	<b>12,504</b>	7,731	62 %	<b>33,464</b>	22,814	47 %
Canada	<b>7,289</b>	4,984	46 %	<b>17,713</b>	12,715	39 %
Total Operating Days <sup>(1)</sup>	<b>19,793</b>	12,715	56 %	<b>51,177</b>	35,529	44 %
US	<b>136</b>	84	62 %	<b>123</b>	84	47 %
Canada	<b>79</b>	54	46 %	<b>65</b>	47	38 %
Total Average Rig Count <sup>(1)</sup>	<b>215</b>	138	56 %	<b>188</b>	131	43 %
US industry rig count <sup>(2)</sup>	<b>745</b>	486	53 %	<b>687</b>	434	58 %
Canadian industry rig count <sup>(3)</sup>	<b>211</b>	161	31 %	<b>184</b>	134	38 %
US DF Market Share <sup>(1)</sup>	<b>18%</b>	17 %	1 %	<b>18 %</b>	19 %	(1)%
Canadian DF Market Share <sup>(1)</sup>	<b>37%</b>	34 %	3 %	<b>35 %</b>	35 %	— %

<sup>1</sup>Refer to "Operational Definitions" for further detail.

<sup>2</sup>Based on the monthly average of Baker Hughes published weekly land data for the United States in the referenced period.

<sup>3</sup>Based on the monthly average of CAOEC published weekly data for Western Canada in the referenced period.

Industry activity levels during Q3 2022 showed another consecutive quarter of improvement driven by a constructive energy demand environment. CES has been able to capitalize on these positive developments, with revenues for the three months ended September 30, 2022 representing a 67% increase as compared to Q3 2021, and revenues for the nine months ended September 30, 2022 representing a 64% increase relative to the comparative 2021 period.

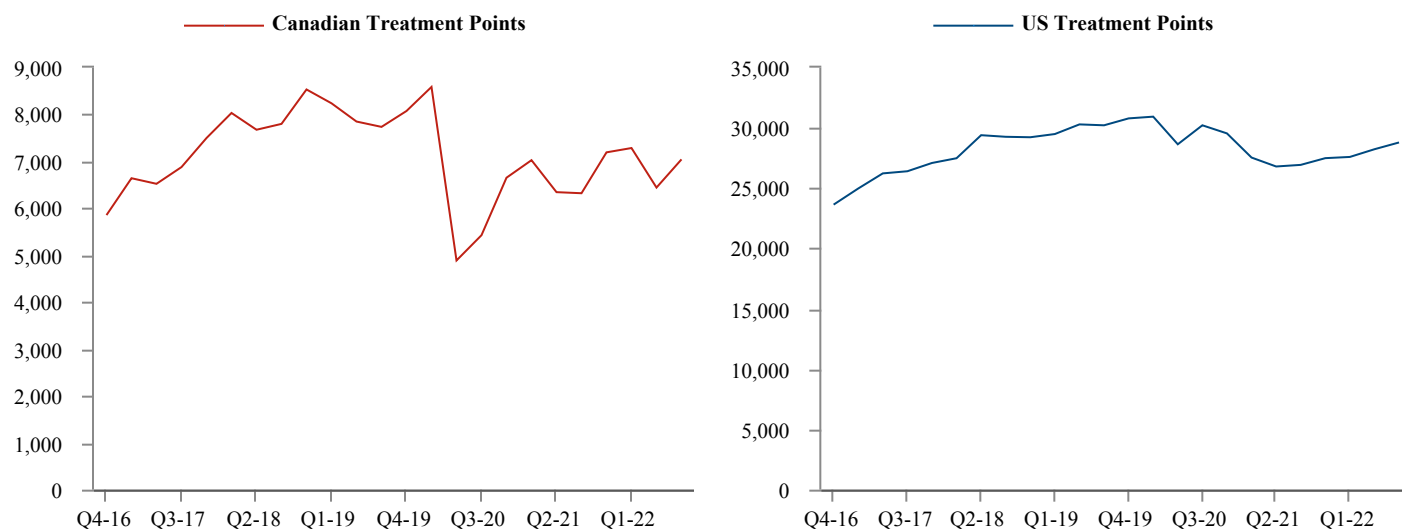
The US industry rig count increased by 53% from 486 rigs in Q3 2021 to 745 rigs in Q3 2022 as activity levels have increased substantially year over year. Correspondingly, CES' US average rig count increased 62% to 136 rigs in Q3 2022 compared to 84 rigs in Q3 2021, and US Operating Days were up 62% relative to Q3 2021. CES was able to participate in this improved drilling environment with US DF Market Share of 18% in the third quarter. The production chemicals business saw an increase in production and frac related chemical sales, as well as bulk product sales in Q3 2022 from Q3 2021 as actual volumes and revenues realized per treatment point continued to increase leading to higher contributions despite only a 7% increase in treatment points as compared to Q3 2021.

The Canadian industry rig count increased by 31% from 161 rigs in Q3 2021 to 211 rigs in Q3 2022 as supply and demand fundamentals continue to be supportive of the sector. Correspondingly, CES' Canadian average rig count increased 46% to 79 rigs in Q3 2022 compared to 54 rigs in Q3 2021, and Canadian Operating Days were up 46% relative to Q3 2021. Canadian Drilling Fluids

Market Share for Q3 2022 was 37%. Canadian Treatment Points increased by 11% year over year with increased production volumes and frac related chemical sales.

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 favorable 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 Q2 2020 onwards was negatively impacted by the economic effects of COVID-19, the lower commodity price environment seen throughout 2020, and the impact of extreme weather in the southern US in February 2021, with the subsequent period demonstrating growth and stabilization.

### Quarterly Treatment Points



Included in revenue generated in Canada for the three and nine months ended September 30, 2022 is \$3.5 million and \$8.3 million (three and nine months ended September 30, 2021 - \$1.8 million and \$4.5 million) of revenue generated by Clear, the Company's Environmental Services segment. Clear is a vertically integrated environmental service provider, providing environmental consulting, water management and water transfer services, as well as drilling fluids waste disposal services. Year over year, the increase in Clear's revenue is attributable to the improvement in industry drilling activity in Canada as a result of the strong commodity price environment. The financial results of Clear are otherwise not material and as such have been aggregated with the consolidated results of the Company throughout this MD&A.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Top five customers as a % of total revenue <sup>(1)</sup>	26 %	27 %	27 %	26 %
Top customer as a % of total revenue <sup>(1)</sup>	8 %	10 %	9 %	12 %

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

**CES Energy Solutions Corp.**

## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

**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 changes 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.

The table below details the calculation of Adjusted Gross Margin relative to Gross Margin determined in accordance with IFRS.

\$000s	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Gross Margin	<b>108,488</b>	68,045	40,443	<b>278,063</b>	185,528	92,535
Gross Margin % of revenue <sup>(1)</sup>	<b>21 %</b>	22 %	(1)%	<b>20 %</b>	22 %	(2)%
Add back (deduct):						
Depreciation included in cost of sales	<b>12,950</b>	11,275	1,675	<b>37,275</b>	34,425	2,850
Gain on sale of building	—	—	—	—	(4,444)	4,444
Adjusted Gross Margin <sup>(2)</sup>	<b>121,438</b>	79,320	42,118	<b>315,338</b>	215,509	99,829
Adjusted Gross Margin <sup>(2)</sup> % of revenue	<b>23 %</b>	25 %	(2)%	<b>23 %</b>	26 %	(3)%

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

<sup>2</sup>Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Adjusted Gross Margin is Gross Margin. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

For the three and nine months ended September 30, 2022, the increase in Adjusted Gross Margin was driven by increased industry activity over a partially fixed cost base. CES did not recognize a benefit from the CEWS program as an offset to compensation costs within cost of sales for the three and nine months ended September 30, 2022, as compared to \$0.3 million and \$3.0 million, respectively, for three and nine months ended September 30, 2021. As a percentage of revenue, Adjusted Gross Margin is lower for the three and nine months ended September 30, 2022 relative to the comparative periods as a result of pressure on margins due to rising product and labor costs driven by global supply chain constraints. While CES has been strategic in its procurement process and pricing increases have been realized, cost inflation has persisted through the third quarter. For the nine month period, necessary pricing increases were realized but generally they lagged product cost increases, particularly during Q1 2022.

**General and Administrative Expenses ("G&A")**

The table below details the calculation of Adjusted General and Administrative Costs ("Adjusted G&A") relative to general and administrative expenses under IFRS.

\$000s	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
General and administrative expenses	<b>57,123</b>	45,322	11,801	<b>166,969</b>	133,563	33,406
G&A expenses % of revenue <sup>(1)</sup>	<b>11 %</b>	14 %	(3)%	<b>12 %</b>	16 %	(4)%
Deduct:						
Stock-based compensation	<b>2,961</b>	2,505	456	<b>10,865</b>	9,770	1,095
Depreciation & amortization	<b>6,013</b>	5,532	481	<b>17,539</b>	16,682	857
Adjusted General and Administrative Costs <sup>(2)</sup>	<b>48,149</b>	37,285	10,864	<b>138,565</b>	107,111	31,454
Adjusted G&A costs <sup>(2)</sup> % of revenue	<b>9 %</b>	12 %	(3)%	<b>10 %</b>	13 %	(3)%

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

<sup>2</sup>Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Adjusted General and Administrative Costs is General and Administrative Expenses. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

## CES Energy Solutions Corp.

### Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

The increases in Adjusted General and Administrative Costs for the three and nine months ended September 30, 2022 are primarily reflective of increased activity levels and associated headcount. For the nine month period, a portion of the increase is also related to the reversal of certain compensation-related rollbacks that were implemented in the lows of 2020 and preserved into the first half of 2021. As a percentage of revenue, Adjusted G&A has decreased for the three and nine months ended September 30, 2022 as compared with three and nine months ended September 30, 2021, as the increase in revenue levels year over year has outpaced the increase in the fixed cost base. For three and nine months ended September 30, 2022 CES no longer recognized a benefit from the CEWS program as an offset to compensation costs within Adjusted General and Administrative Costs, compared to \$0.3 million and \$2.6 million for three and nine months ended September 30, 2021.

### Stock-Based Compensation

Stock-based compensation expense increased by 18% and 11%, respectively, for the three and nine months ended September 30, 2022 in comparison to the same periods in 2021, as a result of the timing of equity-based and cash-based grants under the Company's stock-based compensation plans, in combination with the change in the Company's share price.

### Finance Costs

For the three and nine months ended September 30, 2022 and 2021, finance costs were comprised of the following:

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest on debt, net of interest income	7,759	5,289	19,905	15,591
Amortization of debt issue costs	589	417	1,222	1,038
Foreign exchange loss	9,678	612	12,638	597
Financial derivative loss (gain)	578	(500)	66	705
Gain on repurchase of senior unsecured notes	—	—	—	(12)
Other finance costs (income)	76	(484)	76	(830)
Finance costs	18,680	5,334	33,907	17,089

### *Interest expense*

Finance costs for the three and nine months ended September 30, 2022 include interest on debt, net of interest income, of \$7.8 million and \$19.9 million, respectively, compared to \$5.3 million and \$15.6 million, respectively, for the three and nine months ended September 30, 2021. Average draws and reference interest rates on CES' Senior Facility have both been higher throughout 2022 to date relative to the comparative periods in 2021, with correspondingly higher interest expense as a result. Included in these amounts is interest on the Company's Senior Notes in the amount of \$4.6 million and \$13.7 million for both the three and nine months ended September 30, 2022 and 2021, respectively.

### *Foreign exchange gains and losses*

Finance costs for the three and nine months ended September 30, 2022 include realized and unrealized net foreign exchange losses of \$9.7 million and \$12.6 million, respectively, compared to \$0.6 million for each of the three and nine months ended September 30, 2021. The higher loss in the three and nine months ended September 30, 2022 relative to the comparative periods was driven by higher USD denominated draws held in Canada, coupled with a significant appreciation in the USD in the three and nine months ended September 30, 2022 relative to the comparative periods.

### *Financial derivative gains and losses*

Finance costs for the three and nine months ended September 30, 2022 include a realized and unrealized net derivative loss of \$0.6 million and \$0.1 million, respectively (2021 - net gain of \$0.5 million and net loss of \$0.7 million, respectively) relating to the Company's foreign currency and equity derivative contracts. As of September 30, 2022, the Company had a \$0.2 million financial derivative liability relating to outstanding derivative contracts (December 31, 2021 - financial derivative asset of \$0.4 million). CES has a Board approved hedging and derivative policy that sets out the guidelines and parameters Management follows when approaching its risk management strategies.



At September 30, 2022, the Company had not entered into any foreign exchange USD forward purchase contracts.

The Company periodically enters into equity derivative contracts to mitigate equity price risk on the cash-based portion of the stock-based compensation plan. The equity derivatives mitigate exposure to fluctuations in share price by fixing the future settlement cost on a portion of the cash-settled plan.

The following table details the outstanding equity derivative contracts as of September 30, 2022:

<b>Period</b>		<b>Price</b>	<b>Contract</b>	<b>Notional Principal</b>	<b>Number of Shares</b>
June 2023	\$	2.3352	Swap	\$2,549	1,091,720
July 2023	\$	2.1800	Swap	\$2,850	1,307,388
July 2024	\$	2.1800	Swap	\$2,850	1,307,387
July 2025	\$	2.2031	Swap	\$1,386	629,302
<b>Total</b>	<b>\$</b>	<b>2.2224</b>		<b>\$9,636</b>	<b>4,335,797</b>

### **Current and Deferred Income Taxes**

Income tax expense is related to taxable income in Canada, the US, Luxembourg, Hungary and Oman.

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	<b>2022</b>	2021	<b>2022</b>	2021
Current income tax expense	<b>2,113</b>	824	<b>5,013</b>	2,577
Deferred income tax expense	<b>5,982</b>	3,339	<b>16,824</b>	7,375
<b>Total income tax expense</b>	<b>8,095</b>	4,163	<b>21,837</b>	9,952

Current income tax expense increased for the three and nine months ended September 30, 2022 relative to comparative periods due to increased activity levels in Canada and the US. Deferred income tax expense increased for the three and nine months ended September 30, 2022 relative to comparative periods due to the utilization of losses in Canada and the US, in addition to the reversal of other temporary differences based on increased activity levels.

### **Working Capital Surplus and Net Debt**

With a significant upswing in activity and revenue levels through the quarter and year to date, CES continued to make strategic use of its balance sheet during the quarter to finance a further working capital build. The Company had a Working Capital Surplus of \$666.1 million as at September 30, 2022 compared to \$574.6 million as at June 30, 2022 and \$459.8 million as at December 31, 2021. Accounts receivable and inventory increased during the quarter as a result of higher activity levels and corresponding collection cycles, combined with cost inflation and the impact of the appreciation in the US dollar on translation of working capital balances held in the US. As at September 30, 2022 CES' Working Capital Surplus of \$666.1 million offset Total Debt of \$565.9 million by \$100.2 million (December 31, 2021 - \$20.4 million). Refer to "Non-GAAP Measures and Other Financial Measures" for further details on the calculation of Net Debt.

### **Long-Term Financial Liabilities**

CES had long-term debt totaling \$503.1 million as at September 30, 2022, compared to \$395.2 million at December 31, 2021. The increase of \$107.9 million was driven by strategic investments in working capital on higher activity levels as described above. In addition, dividends paid out during 2022 year to date totaled \$12.2 million. Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

### **Related Party Transactions**

During the three and nine months ended September 30, 2022, CES paid rent of nil and \$0.01 million (2021 - \$0.02 million and \$0.07 million, respectively) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

## QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020
Revenue								
United States <sup>(1)</sup>	<b>349,503</b>	300,167	248,796	233,842	196,966	175,257	168,047	137,262
Canada <sup>(1)</sup>	<b>175,214</b>	133,483	152,485	133,952	117,429	78,348	92,579	75,552
Revenue	<b>524,717</b>	433,650	401,281	367,794	314,395	253,605	260,626	212,814
Net income	<b>24,455</b>	20,105	10,250	24,723	13,372	6,667	5,122	40,453
<i>per share— basic</i>	<b>0.10</b>	0.08	0.04	0.10	0.05	0.03	0.02	0.15
<i>per share— diluted</i>	<b>0.09</b>	0.08	0.04	0.09	0.05	0.03	0.02	0.15
Adjusted EBITDAC <sup>(2)</sup>	<b>73,289</b>	61,027	42,457	47,758	42,035	32,005	34,358	24,651
<i>per share— basic<sup>(2)</sup></i>	<b>0.29</b>	0.24	0.17	0.19	0.16	0.13	0.13	0.09
<i>per share— diluted<sup>(2)</sup></i>	<b>0.28</b>	0.23	0.16	0.18	0.16	0.12	0.13	0.09
Dividends declared	<b>4,092</b>	4,099	4,078	4,061	4,078	—	—	—
<i>per share</i>	<b>0.016</b>	0.016	0.016	0.016	0.016	—	—	—
<i>Shares Outstanding</i>								
End of period	<b>255,728,104</b>	256,159,018	254,863,235	253,830,896	254,871,878	255,525,375	254,415,334	258,264,857
Weighted average – basic	<b>256,246,967</b>	255,568,154	254,024,573	255,742,883	255,194,323	254,890,507	255,244,854	260,997,098
Weighted average – diluted	<b>262,332,402</b>	262,206,332	260,718,253	262,693,594	263,284,730	263,803,688	263,748,333	269,504,464

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

<sup>2</sup>Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for Adjusted EBITDAC is Net income (loss). Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.

### Seasonality of Operations

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

## LIQUIDITY AND CAPITAL RESOURCES

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

\$000s	As at	
	September 30, 2022	December 31, 2021
Senior Facility	<b>221,693</b>	110,725
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	<b>287,954</b>	287,954
	<b>509,647</b>	398,679
Less: net unamortized debt issue costs	<b>(6,538)</b>	(3,495)
Long-term debt	<b>503,109</b>	395,184

**CES Energy Solutions Corp.**

## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

**Senior Facility**

In light of continued growth in activity and revenue levels, during the nine months ended September 30, 2022, the Company amended its syndicated senior facility, adding an aggregate of approximately C\$ equivalent \$190.0 million in available capacity, for a total Senior Facility size of approximately C\$ equivalent \$425.0 million (December 31, 2021 - C\$ equivalent \$232.5 million). The increases were done by way of an \$80.0 million exercise of available accordion capacity and a \$110.0 million upside of the Senior Facility following an amendment to the Company's Senior Notes indenture. As at September 30, 2022, the Senior Facility was comprised of a Canadian facility of \$270.0 million and US facility of US\$120.0 million, for a total facility size of approximately C\$ equivalent \$425.0 million. All other terms and conditions remain materially consistent. The Senior Facility matures on September 28, 2024, subject to certain terms and conditions, and may be extended by one year upon agreement of the lenders and the Company.

As at September 30, 2022, the Company had a net draw of \$220.8 million on the Senior Facility, compared to \$110.1 million at December 31, 2021, with capitalized transaction costs of \$0.9 million (December 31, 2021 - \$0.6 million). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

The Company's debt covenant calculations, as at September 30, 2022 and December 31, 2021, are as follows:

<i>\$000s</i>	As at	
	<b>September 30, 2022</b>	December 31, 2021
Net Senior Debt	<b>252,361</b>	138,438
EBITDA for the four quarters ended	<b>198,430</b>	145,687
Ratio	<b>1.272</b>	0.950
Maximum	<b>2.500</b>	2.500
EBITDA for the four quarters ended	<b>198,430</b>	145,687
Interest Expense for the four quarters ended	<b>24,466</b>	20,578
Ratio	<b>8.110</b>	7.080
Minimum	<b>2.500</b>	2.500

**Senior Notes**

At September 30, 2022, the Company had \$288.0 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 21<sup>st</sup> and October 21<sup>st</sup>. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2020. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at September 30, 2022, the Company was in compliance with the terms and covenants of its lending agreements. For the three and nine months ended September 30, 2022, the Company recorded \$8.4 million and \$21.3 million, respectively (2021 - \$5.7 million and \$16.8 million, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

### Other Indebtedness

The following table details the remaining contractual maturities of the Company's financial liabilities as of September 30, 2022:

<i>\$000s</i>	Payments Due By Period <sup>(1)</sup>					<b>Total</b>
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	
Accounts payable and accrued liabilities	230,227	4,170	—	—	—	<b>234,397</b>
Dividends payable <sup>(2)</sup>	4,092	—	—	—	—	<b>4,092</b>
Income taxes payable	—	2,291	—	—	—	<b>2,291</b>
Deferred acquisition consideration	—	1,547	1,475	1,369	—	<b>4,391</b>
Senior Facility	—	—	221,693	—	—	<b>221,693</b>
Senior Notes <sup>(3)</sup>	—	—	—	287,954	—	<b>287,954</b>
Interest on Senior Notes	9,179	9,179	18,356	9,179	—	<b>45,893</b>
Lease obligations <sup>(4)</sup>	3,569	17,015	15,111	15,009	6,565	<b>57,269</b>
Commitments <sup>(5)</sup>	8,000	21,728	137	14	—	<b>29,879</b>
Other long-term liabilities	—	—	1,014	135	—	<b>1,149</b>
	255,067	55,930	257,786	313,660	6,565	<b>889,008</b>

<sup>1</sup> Payments denominated in foreign currencies have been translated using the September 30, 2022 exchange rate.

<sup>2</sup> Dividends declared as of September 30, 2022.

<sup>3</sup> The Senior Notes are due on October 21, 2024.

<sup>4</sup> Lease obligations reflect principal payments and excludes any associated interest portion.

<sup>5</sup> 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. To support growth in the business and related working capital needs CES routinely considers its capital structure, including further increasing the capacity of its Senior Facility, refinancing of the Company's Senior Notes, amending existing indenture terms, and other potential financing options. 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 nine months ended September 30, 2022 and 2021:

<i>\$000's</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Net cash provided by (used in)						
Operating Activities	<b>(16,258)</b>	(45,883)	29,625	<b>(41,522)</b>	(34,899)	(6,623)
Investing Activities	<b>(5,341)</b>	(10,460)	5,119	<b>(32,607)</b>	(6,522)	(26,085)
Financing Activities	<b>21,599</b>	44,474	(22,875)	<b>74,129</b>	23,142	50,987

**CES Energy Solutions Corp.**

## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

*Cash Flows from Operating Activities*

For Q3 2022, net cash used in operating activities totaled \$16.3 million, compared to \$45.9 million during the three months ended September 30, 2021. The change was primarily driven higher by net income in Q3 2022 on higher activity levels year over year, combined with a smaller change in non-cash working capital relative to the comparative period.

*Cash Flows from Investing Activities*

For Q3 2022, net cash flows used in investing activities totaled \$5.3 million, compared to \$10.5 million during Q3 2021. The decrease for Q3 2022 was driven by a \$8.3 million distribution of other assets, compared to a \$3.4 million investment in other assets in Q3 2021, both relating to the Company's captive insurance asset portfolio. This change was partially offset by higher capital spending in Q3 2022 relative to the comparative period, to support higher activity and revenue levels year over year.

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

<i>\$000's</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expansion Capital <sup>(1)</sup>	<b>10,489</b>	5,064	<b>21,266</b>	9,252
Maintenance Capital <sup>(1)</sup>	<b>4,491</b>	4,735	<b>13,544</b>	7,996
Total investment in property and equipment	<b>14,980</b>	9,799	<b>34,810</b>	17,248
Change in non-cash investing working capital	<b>(52)</b>	(2,479)	<b>2,313</b>	(2,850)
Cash used for investment in property and equipment	<b>14,928</b>	7,320	<b>37,123</b>	14,398

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.

Expansion Capital expenditures in Q3 2022 included \$0.7 million in support of a new mud plant at AES and \$1.2 million in respect of a new barite grinding facility in the Superior Weighting division, in addition to spending incurred for field, processing and warehouse equipment, vehicles and tanks to support growth throughout the business in the quarter, particularly in the US. Maintenance Capital additions during Q3 2022 included \$2.6 million for vehicles, trucks and trailers, and \$1.1 million for warehouse, processing and computer equipment.

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 2022 capital expenditures, excluding amounts financed under lease arrangements, to be approximately \$50.0 million, of which \$25.0 million is maintenance and \$25.0 million is earmarked for expansion.

*Cash Flows from Financing Activities*

For Q3 2022, cash flows provided by financing activities totaled \$21.6 million compared to \$44.5 million in Q3 2021. This year over year change is primarily due to a smaller increase in the draw on the Company's Senior Facility in Q3 2022. In addition, CES paid out a dividend of \$4.1 million and consent solicitation fee of \$3.8 million related to the amendment of the Senior Notes indenture during Q3 2022, as compared to nil in Q3 2021.

**Dividend Policy**

The Company declared dividends to holders of common shares for the three and nine months ended September 30, 2022, as follows:

<i>\$000s except per share amounts</i>	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
March	Mar 31	Apr 15	\$0.016	<b>4,078</b>
June	Jun 30	Jul 15	\$0.016	<b>4,099</b>
September	Sept 30	Oct 14	\$0.016	<b>4,092</b>
Total dividends declared			\$0.048	<b>12,269</b>

During the three and nine months ended September 30, 2022, the Company's Dividend Payout Ratio averaged 10% and 12%, respectively, as compared to 16% and 7% in the comparative periods of 2021. For the quarter, the Dividend Payout Ratio is lower as a result of a higher Distributable Earnings value. For the nine month period, the comparative ratio is higher given that the dividend was

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## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

not re-instated until the third quarter of 2021. Refer to “Non-GAAP Measures and Other Financial Measures” for further details on the calculation of Dividend Payout Ratio.

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

Management and the Board of Directors review the appropriateness of dividends on a quarterly 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 under its NCIB. At this time, CES intends to continue to pay cash dividends to shareholders. In addition, future expansion, investments, acquisitions, or future share-buy backs under CES’ NCIB program may be funded internally by allocating a portion of cash flow in conjunction with, or in replacement of, external sources of capital such as debt or the issuance of equity. To the extent that CES deploys cash flow to finance these activities, the amount of cash dividends to shareholders may be affected. Alternatively, to the extent that CES’ sustainable operating after tax cash flow improves, the amount of cash dividends to shareholders may be increased. Over the long-term, CES’ business model has historically shown it can support a proportion of cash flow from operations being paid out as a dividend or through share-buy backs as the long-term Expansion Capital investments and Maintenance Capital expenditures required for CES to execute its business plan have not been significant in relation to the total revenue and EBITDAC generated. Refer to “Non-GAAP Measures and Other Financial Measures” for further details on the calculation of Distributable Earnings.

**NCIB**

On July 14, 2022, CES announced the renewal of its previous NCIB, which expired on July 20, 2022. Under the Company's renewed NCIB, which became on effective July 21, 2022, the Company may repurchase for cancellation up to 14,399,478 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, 2023 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 is as follows:

<i>\$000s except for share and per share amounts</i>	<b>Three Months Ended September 30, 2022</b>	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Number of shares	<b>550,000</b>	693,000	10,084,677
Cash outlay	<b>1,211</b>	1,501	16,169
Average price per share	<b>\$2.20</b>	\$2.17	\$1.60

Since the commencement of the Company's current NCIB program, the Company repurchased 550,000 common shares up to September 30, 2022, at an average price of \$2.20 per share for a total amount of \$1.2 million. Since inception of the Company's NCIB programs on July 17, 2018, and up to September 30, 2022, the Company has repurchased 30,819,857 common shares at an average price of \$2.00 per share for a total amount of \$61.6 million. Subsequent to September 30, 2022, the Company has repurchased 844,500 additional shares at a weighted average price of \$2.45 per share for a total of \$2.1 million, bringing the total year to date amount of repurchased common shares to 1,537,500 at a weighted average price of \$2.32 per share for a total of \$3.6 million.

### Share Capital and Stock-Based Compensation Plans

A summary of the Company's common shares and stock-based compensation plans outstanding is as follows:

	November 10, 2022	September 30, 2022	December 31, 2021
Common shares outstanding	255,006,818	255,728,104	253,830,896
Restricted Share Unit Plan ("RSU")	6,028,127	6,090,752	6,604,022
Phantom Share Unit Plan ("PSU")	6,003,407	5,995,339	5,916,448
Share Rights Incentive Plan ("SRIP")	15,000	15,000	2,378,400

### NON-GAAP MEASURES AND OTHER FINANCIAL MEASURES

The accompanying consolidated financial statements have been prepared in accordance with 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.

Non-GAAP financial measures and non-GAAP ratios have the definition set out in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure". The non-GAAP measures, non-GAAP ratios and supplementary financial 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 and non-GAAP ratios are further defined for use throughout this MD&A as follows:

**EBITDAC** - is a non-GAAP measure that has been reconciled to net income 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), stock-based compensation, and impairment of goodwill, 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 a non-GAAP measure that 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.

**Adjusted EBITDAC % of Revenue** - is a non-GAAP ratio calculated as Adjusted EBITDAC divided by revenue. Management believes that this metric is a useful measure of the Company's normalized operating performance relative to its top line revenue generation and a key industry performance measure.

**Adjusted EBITDAC per share (basic and diluted)** - is a non-GAAP ratio calculated as Adjusted EBITDAC divided by the weighted average number of basic and diluted shares outstanding, respectively. Adjusted EBITDAC is a non-GAAP measure. Management believes it is a useful measure of the Company's normalized operating performance on a per share basis.

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Readers are cautioned that EBITDAC and Adjusted EBITDAC should not be considered to be more meaningful than net income (loss) determined in accordance with IFRS. EBITDAC, Adjusted EBITDAC, Adjusted EBITDAC % of Revenue and Adjusted EBITDAC per share are calculated as follows:

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	24,455	13,372	54,810	25,161
Add back (deduct):				
Depreciation on property and equipment in cost of sales	12,950	11,275	37,275	34,425
Depreciation on property and equipment in G&A	1,881	1,735	5,422	5,318
Amortization on intangible assets in G&A	4,132	3,797	12,117	11,364
Current income tax expense	2,113	824	5,013	2,577
Deferred income tax expense	5,982	3,339	16,824	7,375
Stock-based compensation	2,961	2,505	10,865	9,770
Finance costs	18,680	5,334	33,907	17,089
Other loss (income)	135	(146)	540	(237)
EBITDAC	73,289	42,035	176,773	112,842
Add back (deduct):				
Gain on sale of building	—	—	—	(4,444)
Adjusted EBITDAC	73,289	42,035	176,773	108,398
Adjusted EBITDAC % of Revenue	14.0 %	13.4 %	13.0 %	13.1 %
Adjusted EBITDAC per share - basic	0.29	0.16	0.69	0.43
Adjusted EBITDAC per share - diluted	0.28	0.16	0.68	0.41

**Distributable Earnings** - is a non-GAAP measure that is defined as cash provided by operating activities, adjusted for change in non-cash operating working capital less Maintenance Capital and repayment of lease obligations. Distributable Earnings is a measure used by Management and investors to analyze the amount of funds available to distribute to shareholders as dividends or through the NCIB program before consideration of funds required for growth purposes.

**Dividend Payout Ratio** - is a non-GAAP ratio that is defined as dividends declared as a percentage of Distributable Earnings. Management believes it is a useful measure of the proportion of available funds committed to being returned to shareholders in the form of a dividend relative to the Company's total Distributable Earnings.

Readers are cautioned that Distributable Earnings should not be considered to be more meaningful than cash provided by operating activities determined in accordance with IFRS. Distributable Earnings and Dividend Payout Ratio are calculated as follows:

<i>\$000's</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash provided by (used in) operating activities	(16,258)	(45,883)	(41,522)	(34,899)
Adjust for:				
Change in non-cash operating working capital	65,126	80,770	169,650	118,619
Less: Maintenance Capital <sup>(1)</sup>	(4,491)	(4,735)	(13,544)	(7,996)
Less: Repayment of lease obligations	(5,178)	(4,353)	(15,466)	(14,395)
Distributable Earnings	39,199	25,799	99,118	61,329
Dividends declared	4,092	4,078	12,269	4,078
Dividend Payout Ratio	10 %	16 %	12 %	7 %

<sup>1</sup>Supplementary Financial Measure. Supplementary Financial Measures are provided in this MD&A because Management believes they assist the reader in understanding CES' results. Refer to "Non-GAAP Measures and Other Financial Measures" for further detail.



**CES Energy Solutions Corp.**

## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

**Adjusted Gross Margin** - is a non-GAAP measure 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 % of Revenue** - is a non-GAAP ratio that is calculated as Adjusted Gross Margin divided by revenue. Management believes that this metric is a useful measure of the Company's normalized cost of sales relative to its top line revenue generation.

Readers are cautioned that Adjusted Gross Margin should not be considered to be more meaningful than Gross Margin determined in accordance with IFRS. Adjusted Gross Margin and Adjusted Gross Margin % of Revenue are calculated as follows:

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross Margin	<b>108,488</b>	68,045	<b>278,063</b>	185,528
Gross Margin % of revenue	<b>21 %</b>	22 %	<b>20 %</b>	22 %
Add back (deduct):				
Depreciation included in cost of sales	<b>12,950</b>	11,275	<b>37,275</b>	34,425
Gain on sale of building	—	—	—	(4,444)
Adjusted Gross Margin	<b>121,438</b>	79,320	<b>315,338</b>	215,509
Adjusted Gross Margin % of revenue	<b>23 %</b>	25 %	<b>23 %</b>	26 %

**Adjusted General & Administrative Costs** - is a non-GAAP measure that has been reconciled to General and Administrative expenses for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. Adjusted G&A costs excludes stock-based compensation, which is not reflective of underlying operations, depreciation and amortization, as it relates to assets not associated with operations and operating related activities, and specific items that are considered to be non-recurring in nature. Management believes that Adjusted G&A costs and Adjusted G&A costs % of Revenue assist in demonstrating CES' profitability.

**Adjusted General & Administrative Costs % of Revenue** - is a non-GAAP ratio that is calculated as Adjusted General and Administrative costs divided by revenue. Management believes that this metric is a useful measure of the Company's normalized G&A relative to its top line revenue generation.

Readers are cautioned that Adjusted G&A costs should not be considered to be more meaningful than G&A expenses determined in accordance with IFRS. Adjusted G&A costs and Adjusted G&A costs % of Revenue are calculated as follows:

<i>\$000's</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
General and administrative expenses	<b>57,123</b>	45,322	<b>166,969</b>	133,563
G&A expenses % of revenue	<b>11 %</b>	14 %	<b>12 %</b>	16 %
Deduct:				
Stock-based compensation	<b>2,961</b>	2,505	<b>10,865</b>	9,770
Depreciation & amortization	<b>6,013</b>	5,532	<b>17,539</b>	16,682
Adjusted General and Administrative Costs	<b>48,149</b>	37,285	<b>138,565</b>	107,111
Adjusted G&A costs % of revenue	<b>9 %</b>	12 %	<b>10 %</b>	13 %

**CES Energy Solutions Corp.**

## Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2022

**Funds Flow from Operations** - is a non-GAAP measure that has been reconciled to Cash provided by (used in) operating activities for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. 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 considered more meaningful than cash provided by operating activities, comprehensive income (loss), 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, and is calculated as follows:

<i>\$000s</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash provided by (used in) operating activities	(16,258)	(45,883)	(41,522)	(34,899)
Adjust for:				
Change in non-cash operating working capital	65,126	80,770	169,650	118,619
<b>Funds Flow from Operations</b>	<b>48,868</b>	<b>34,887</b>	<b>128,128</b>	<b>83,720</b>

**Working Capital Surplus** - Working Capital Surplus is a non-GAAP measure that is calculated as current assets less current liabilities, excluding the current portion of finance lease obligations and deferred acquisition consideration. 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 and Total Debt are non-GAAP measures that Management believes are key metrics to assess liquidity of the Company and uses them to monitor its capital structure. Net Debt represents Total Debt, which includes the Senior Facility, the Senior Notes, both current and non-current portions of lease obligations, both current and non-current portions of deferred acquisition consideration, non-current portion of cash settled incentive obligations, offset by the Company's cash position, less Working Capital Surplus.

Readers are cautioned that Total Debt, Working Capital Surplus, and Net Debt should not be construed as alternative measures to Long-term financial liabilities as determined in accordance with IFRS. Total Debt, Working Capital Surplus, and Net Debt are calculated as follows:

<i>\$000's</i>	As at	
	September 30, 2022	December 31, 2021
Long-term financial liabilities <sup>(1)</sup>	543,787	423,077
Current portion of finance lease obligations	20,584	16,315
Current portion of deferred acquisition consideration	1,547	—
<b>Total Debt</b>	<b>565,918</b>	439,392
Deduct Working Capital Surplus:		
Current assets	907,051	619,201
Current liabilities <sup>(2)</sup>	(240,942)	(159,447)
<b>Working Capital Surplus</b>	<b>666,109</b>	459,754
<b>Net Debt</b>	<b>(100,191)</b>	(20,362)

<sup>1</sup>Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, deferred acquisition consideration, and cash settled incentive obligations.

<sup>2</sup>Excludes current portion of lease liabilities and deferred acquisition consideration.

**Supplementary Financial Measures**

A Supplementary Financial Measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio. Supplementary financial measures found within this MD&A are as follows:

*Revenue - United States* - comprises a component of total revenue, as determined in accordance with IFRS, and is calculated as revenue recorded from the Company's US divisions.

*Revenue - Canada* - comprises a component of total revenue, as determined in accordance with IFRS, and is calculated as revenue recorded from the Company's Canadian divisions.

*Top 5 customers as a % of total revenue* - calculated as revenue recorded from the five customers comprising the largest individual components of revenue divided by total revenue, as determined in accordance with IFRS, for the period.

*Top customer as a % of total revenue* - calculated as revenue recorded from the one customer comprising the largest individual components of revenue divided by total revenue, as determined in accordance with IFRS, for the period.

*Gross Margin % of Revenue* - calculated as gross margin, as determined in accordance with IFRS, divided by revenue, as determined in accordance with IFRS, for the period.

*General and Administrative Expenses % of Revenue* - calculated as general and administrative expenses, as determined in accordance with IFRS, divided by revenue, as determined in accordance with IFRS, for the period.

*Expansion Capital* - comprises a component of total investment in property and equipment as determined in accordance with IFRS, and 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* - comprises a component of total investment in property and equipment as determined in accordance with IFRS, and represents the amount of capital expenditure that has been or will be incurred to sustain the current level of operations.

## **OPERATIONAL DEFINITIONS**

Operational terms used throughout this MD&A include:

*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 Energy Contractors ("CAOEC") published data for Western Canada.

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

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

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

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

## **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

As a routine element of the financial statement preparation process, Management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, and the possible disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses for the period. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The current fluctuation in market conditions introduce additional uncertainties, risks and complexities in Management's determination of the estimates and assumptions used to prepare CES' financial results. As such, actual results may differ from estimates and the effect of such differences may be material. The impacts of such estimates are pervasive throughout the condensed consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. The most significant estimates in CES' condensed consolidated financial statements have been set out in the Company's MD&A for the year ended December 31, 2021, and its audited annual consolidated financial statements and notes thereto for the year ended December 31, 2021.

## **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, 2021. There have been no new standards or interpretations issued during the three and nine months ended September 30, 2022 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.

### ***Internal Controls over Financial Reporting ("ICFR")***

Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes to CES' internal controls over financial reporting during the three and nine months ended September 30, 2022 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' 2021 Annual Report, CES' Annual Information Form dated March 10, 2022 in respect of the year ended December 31, 2021, and CES' Information Circular in respect of the June 21, 2022 Annual General and Special Meeting of shareholders each of which are available on the CES' SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **RISKS AND UNCERTAINTIES AND NEW DEVELOPMENTS**

CES' 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. Throughout the COVID-19 pandemic, CES remained committed to staying open and fully operational, ensuring the ongoing safety of our employees and maintaining delivery of products and services to our customers while managing the impacts of the pandemic. We also implemented 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 until early 2020, 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. Oil and natural gas prices have since made a significant recovery, rising to levels not seen since the commodity price collapse in 2014. Although oil and gas operators have increased capital spending in response to improving prices, they continue to be cautious relative to previous market cycles and are increasingly focused on operating within cash flows and returning capital to shareholders. A retracement of oil and natural gas prices to levels seen in April 2020, would likely affect oil and natural gas production levels and therefore reduce the demand for drilling and oilfield services by operators, which could have a material adverse effect on CES' business, financial condition, results of operations and cash flows. In addition, in Canada many operators in the WCSB have been challenged by additional crude oil pricing differentials versus world benchmarks such as Brent and WTI, and 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. While price differentials have narrowed as demand for oil and gas recovers in North America, oilfield activity in Canada may continue to face headwinds compared to activity in the United States. In addition, a retracement of oil and gas commodity prices to the lows seen during the COVID-19 pandemic would result in a significant reduction in 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.

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 the conflict in Ukraine continues to create uncertainty relating to global markets and supply chains. Should the conflict in Ukraine escalate or expand beyond Ukraine's borders into a broader global conflict, this could have a significant impact not only on credit and equity markets, but also on global supply chains and demand for CES' products and services.

Despite CES' successful re-financing of its \$300.0 million Senior Notes in October 2017, in general since the fall of 2014, and further emphasized by recent developments in global oil and gas markets, there has been a retreat in the energy capital markets as a result of low commodity prices and perception regarding government policy and regulations. As such it may prove to be difficult under future market conditions to issue additional equity, maintain or increase credit capacity, or re-finance existing credit without significant costs. CES is also reliant on its Senior Facility to fund working capital and other growth initiatives. In the event CES' lenders are unable to, or choose not to continue to fund CES, it would impair CES' ability to operate until alternative sources of financing were obtained, as access to the Senior Facility is critical to the effective execution of CES' business plan. At September 30, 2022, 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. The demand for skilled employees has increased in recent years 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 continues to monitor these risks on an ongoing basis. If a low oil and natural gas price environment returns, 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, many of whom are located in North America but also increasingly from overseas including Asia and the Middle East. The availability and supply of materials has been consistent in the past; however as countries around the world emerge from the COVID-19 pandemic, there have been increasing supply chain issues and disruptions. Coupled with increasing demand from the Company's customers, periodic shortages of certain materials have been experienced and costs have been affected. Although the Company generally does not source materials from Eastern Europe, the recent conflict in Ukraine could also impact global supply chains and trade routes in ways which are not anticipated, particularly if that conflict expands beyond Ukraine's borders. Additionally, increased political tensions relating to China and Taiwan could cause significant supply chain disruptions, particularly as the Company sources more materials from Asia. Moreover, disruptions to transportation networks, impacts from pandemics, shortages of transportation infrastructure (including container availability), 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 exhaustive. Reference should be made to CES' Annual Information Form dated March 10, 2022 for the year ended December 31, 2021, 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](http://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; expectations regarding improving industry conditions and the Company’s ability to generate free cash flow to sustain the quarterly dividend; CES’ ability to execute on financial goals relating to its balance sheet, liquidity, working capital and cost structure; expectations regarding CES’ ability to amend certain covenants relating to its Senior Notes to access additional liquidity; expectations regarding the performance of CES’ business model and counter cyclical balance sheet during downturns; expectations regarding CES’ ability to qualify and participate in government support programs; expectations regarding the impact of the COVID-19 pandemic on industry activity levels; 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 2022, 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 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 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, the US and overseas; 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 2022; expectations regarding the demand for oil and natural gas; production decisions from OPEC+ members and the corresponding impact on oil and natural gas prices; expectations regarding the impact of conflict (including the conflict in Ukraine) and global unrest on commodity prices as well as CES’ business and operations; 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; oilfield 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; 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; conflict, war and political and societal unrest that may impact CES' operations, supply chains 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, shipping containers, and skilled management, technical and field personnel; the collectability of accounts receivable; 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, 2021 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](http://www.sedar.com). Information is also accessible on CES' web site at [www.cesenergysolutions.com](http://www.cesenergysolutions.com).



## **CES Energy Solutions Corp.**

### Management's Discussion and Analysis Information

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#### **STOCK EXCHANGE LISTINGS**

The Toronto Stock Exchange  
Trading Symbol: CEU

#### **OTC**

Trading Symbol: CESDF

#### **BOARD OF DIRECTORS**

Philip J. Scherman<sup>1</sup>  
Chairman

John M. Hooks<sup>2,3</sup>

Spencer D. Armour III<sup>2,3</sup>

Kyle D. Kitagawa<sup>1,2</sup>

Stella Cosby<sup>3,4</sup>

Ian Hardacre<sup>1,4</sup>

Joe Wright<sup>1,4</sup>

Kenneth E. Zinger

<sup>1</sup>Member of the Audit Committee

<sup>2</sup>Member of the Compensation Committee

<sup>3</sup>Member of the Corporate Governance and Nominating Committee

<sup>4</sup>Member of the Health, Safety and Environment  
Committee

#### **EXECUTIVE OFFICERS**

Kenneth E. Zinger  
President & Chief Executive Officer

Anthony M. Aulicino  
Chief Financial Officer

Richard L. Baxter  
President, US Drilling Fluids

Vernon J. Disney  
President, US Production Chemicals

#### **CORPORATE SECRETARY**

Matthew S. Bell

#### **AUDITORS**

Deloitte LLP  
Chartered Professional Accountants, Calgary, AB

#### **BANKERS**

Scotiabank Canada, Calgary, AB

#### **LEGAL COUNSEL**

Stikeman Elliot, LLP, Calgary, AB  
Crowe & Dunlevy, Oklahoma City, OK

#### **REGISTRAR & TRANSFER AGENT**

Computershare Investor Services Inc.  
Calgary, AB and Toronto, ON

#### **CORPORATE OFFICE**

Suite 1400, 332 – 6<sup>th</sup> Avenue SW  
Calgary, AB T2P 0B2  
Phone: 403-269-2800  
Toll Free: 1-888-785-6695  
Fax: 403-266-5708

#### **US BUSINESS UNITS**

AES Drilling Fluids  
Suite 800, 575 N Dairy Ashford  
Houston, TX 77079  
Phone: 281-556-5628  
Toll Free: 1-888-556-4533  
Fax: 281-589-7150

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

#### **CANADIAN BUSINESS UNITS**

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

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

Clear Environmental Solutions  
Suite 720, 736 – 8<sup>th</sup> Avenue SW  
Calgary, AB T2P 1H4  
Phone: 403-263-5953  
Fax: 403-229-1306

[www.cesenergysolutions.com](http://www.cesenergysolutions.com)