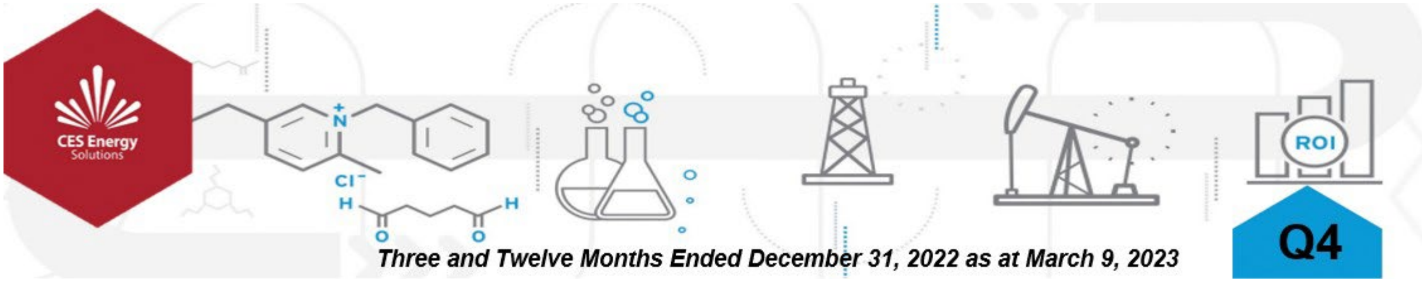


MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto of CES Energy Solutions Corp. ("CES" or the "Company") for the three and twelve months ended December 31, 2022 and 2021, and CES' 2022 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 March 9, 2023, 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_2S scavengers, paraffin control products, surfactants, scale inhibitors, biocides and other specialty products. Further, specialty chemicals are used throughout the pipeline and midstream industry to aid in hydrocarbon movement and manage transportation and processing challenges including corrosion, wax build-up and H_2S.

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

CES continues to invest in research and development of new technologies and in the top-end scientific talent that can develop and refine these technologies. CES operates nine separate lab facilities across North America: two in Houston, Texas; two in Midland, Texas; one in Sterling, Kansas; and one in each of Calgary, Alberta; Grande Prairie, Alberta; Carlyle, Saskatchewan; and Delta, British Columbia. In the US, CES' main chemical manufacturing and reacting facility is located in Sterling, Kansas with additional low temperature reacting and chemical blending capabilities just outside of Midland, Texas and chemical blending capabilities in Sonora, Texas. In Canada, CES has a chemical manufacturing and reacting facility located in Delta, British Columbia with additional chemical blending capabilities located in Carlyle, Saskatchewan, Nisku, Alberta, and Grande Prairie, Alberta. CES also leverages third party partner relationships to drive innovation in the consumable fluids and chemicals business.

FINANCIAL HIGHLIGHTS

	Three Months Ended December 31,			Year Ended December 31,		
($000s, except per share amounts)	**2022**	2021	%Change	**2022**	2021	%Change
Revenue						
United States[1]	**378,478**	233,842	62 %	**1,276,944**	774,112	65 %
Canada[1]	**184,193**	133,952	38 %	**645,375**	422,308	53 %
Total Revenue	**562,671**	367,794	53 %	**1,922,319**	1,196,420	61 %
Net income	**40,408**	24,723	63 %	**95,218**	49,884	91 %
per share – basic	***0.16***	*0.10*	60 %	***0.37***	*0.20*	85 %
per share - diluted	***0.15***	*0.09*	67 %	***0.36***	*0.19*	89 %
Adjusted EBITDAC[2]	**80,249**	47,758	68 %	**257,022**	156,156	65 %
Adjusted EBITDAC[2] % of Revenue	***14.3 %***	*13.0 %*	1.3 %	***13.4 %***	*13.1 %*	0.3 %
Cash provided by (used in) operating activities	**38,784**	(39,506)	nmf	**(2,738)**	(74,405)	(96)%
Funds Flow from Operations[3]	**66,892**	33,534	99 %	**195,020**	117,254	66 %
Capital expenditures						
Expansion Capital[1]	**7,448**	8,648	(14)%	**28,714**	17,900	60 %
Maintenance Capital[1]	**7,568**	3,470	118 %	**21,112**	11,465	84 %
Total capital expenditures	**15,016**	12,118	24 %	**49,826**	29,365	70 %
Dividends declared	**5,090**	4,061	25 %	**17,359**	8,139	113 %
per share	***0.020***	*0.016*	25 %	***0.068***	*0.032*	113 %
Common Shares Outstanding						
End of year - basic	**254,515,682**	253,830,896		**254,515,682**	253,830,896	
End of year - fully diluted[4]	**260,438,045**	260,434,918		**260,438,045**	260,434,918	
Weighted average - basic	**255,031,387**	255,742,883		**255,223,348**	255,269,304	
Weighted average - diluted	**261,003,345**	262,693,594		**261,567,966**	263,378,254	

	As at				
Financial Position ($000s)	**December 31, 2022**	September 30, 2022	%Change	December 31, 2021	%Change
Total assets	**1,411,003**	1,392,967	1 %	1,087,598	30 %
Long-term financial liabilities[5]	**532,771**	543,787	(2)%	423,077	26 %
Total Debt[6]	**557,531**	565,918	(1)%	439,392	27 %
Working Capital Surplus[6]	**691,096**	666,109	4 %	459,754	50 %
Net Debt[6]	**(133,565)**	(100,191)	33 %	(20,362)	556 %
Shareholders' equity	**609,049**	584,205	4 %	486,675	25 %

[1]*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.*
[2]*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.*
[3]*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.*
[4]*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 Shares Outstanding, End of period - fully diluted is Common Shares outstanding. Refer to the section entitled "Non-GAAP Measures and Other Financial Measures" contained within this MD&A.*
[5]*Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, deferred acquisition consideration, and cash settled incentive obligations.*

[6]*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 twelve months ended December 31, 2022 in comparison to the three and twelve months ended December 31, 2021 for CES are as follows:

- **Overview:** Revenue for the quarter reached another consecutive record high at $562.7 million, representing a sequential increase of $38.0 million or 7% relative to CES' previous record of $524.7 million in Q3 2022 and an increase of $194.9 million or 53% relative to Q4 2021. Adjusted EBITDAC for the quarter was a record $80.2 million, compared to $73.3 million in Q3 2022 and $47.8 million in Q4 2021, as CES continues to realize significant revenue growth driven by increased pricing, scale and industry positioning throughout the business. Industry conditions provided a supportive backdrop for the Company underpinned by year over year improvements in supply demand balance, activity levels, rig counts and production levels. While cost inflation persists in certain 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 fourth quarter CES generated revenue of $562.7 million, representing a sequential increase of $38.0 million or 7% compared to Q3 2022, as the Company experienced revenue growth throughout the business. Q4 2022 revenue also represented an increase of 53% compared to Q4 2021 as activity levels have seen a significant increase year over year. For the twelve months ended December 31, 2022, CES generated revenue of $1.9 billion, an increase of $725.9 million or 61% relative to the twelve months ended December 31, 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 impacted by the COVID-19 pandemic.

    - **Revenue - US:** Revenue generated in the US during Q4 2022 was $378.5 million, representing a sequential increase of $29.0 million or 8% compared to Q3 2022 and an increase of 62% compared to Q4 2021. For the twelve months ended December 31, 2022, revenue generated in the US was up 65% to $1.3 billion relative to the twelve months ended December 31, 2021. US revenues for both the three and twelve month periods were positively impacted by increased industry activity, higher production levels and improved pricing year over year. US land drilling activity in Q4 2022 improved by 2% on a sequential quarterly basis and by 39% from Q4 2021. CES also saw a sequential and year over year improvement in its strong industry positioning, with a US Drilling Fluids Market Share of 19% for Q4 2022 and 18% for the year.

    - **Revenue - Canada:** Revenue generated in Canada during Q4 2022 was $184.2 million, representing a sequential increase of $9.0 million or 5% compared to Q3 2022 and an increase of 38% from Q4 2021. For the twelve months ended December 31, 2022, revenue generated in Canada was up 53% to $645.4 million relative to the twelve months ended December 31, 2021. Canadian revenues benefited from a 20% increase in rig counts relative to Q4 2021 and a 32% increase year over year, with drilling and production levels up year over year in both the three and twelve month periods. Canadian Drilling Fluids Market Share for Q4 2022 was up on a sequential and year over year basis as well, at 38% for Q4 2022 and 36% for the year.

- **Adjusted EBITDAC:** CES achieved record Adjusted EBITDAC of $80.2 million in Q4 2022, representing a sequential increase of 9% compared to Q3 2022 and an increase of 68% compared to Q4 2021. Adjusted EBITDAC as a percentage of revenue of 14.3% achieved in Q4 2022 was in line with the 14.0% recorded in Q3 2022 and up from the 13.0% recorded in Q4 2021. The Company has been effective in implementing pricing increases where warranted and maintaining prudent G&A levels, which combined with increased scale to deliver continued strong margins for Q4 2022. For the year ended December 31, 2022, Adjusted EBITDAC was up 65% from $156.2 million in 2021 to $257.0 million. For both the three and twelve 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 December 31, 2022 was $40.4 million compared to $24.7 million in Q4 2021. Net income for the twelve months ended December 31, 2022 was $95.2 million compared to $49.9 million for the twelve months ended December 31, 2021. Net income nearly 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 $0.12 million and $5.4 million for the three and twelve months ended December 31, 2021, respectively.

- **Funds Flow from Operations:** CES generated a record $66.9 million in Funds Flow from Operations in Q4 2022, up 37% from $48.9 million generated in Q3 2022 and 100% from $33.5 million generated in Q4 2021. For the twelve months ended December 31, 2022 CES generated Funds Flow from Operations of $195.0 million, compared to $117.3 million in the twelve months ended December 31, 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 relative to the comparative periods.

- **Working Capital Surplus:** As at December 31, 2022, CES had a Working Capital Surplus of $691.1 million, which has increased from $666.1 million at September 30, 2022 and from $459.8 million at December 31, 2021. The build during the year is commensurate with the increased financial scale of the Company and associated revenue growth, with accounts receivable increasing by 55% and inventory increasing by 57% from December 31, 2021, to support the 61% year over year growth in revenue and corresponding collection cycles. Working Capital Surplus was also impacted by the significant appreciation in the USD during the year, which contributed $28.0 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 $208.5 million compared to $220.8 million at September 30, 2022 and $110.1 million at December 31, 2021. Total Debt of $557.5 million at December 31, 2022 compared to $565.9 million at September 30, 2022 and $439.4 million at December 31, 2021, of which $288.0 million relates to Senior Notes which mature on October 21, 2024. The increases realized during the year were primarily driven by required working capital build as described above, combined with dividends paid out year to date totaling $16.3 million. During the twelve months ended December 31, 2022, the Company amended its Senior Facility to increase the available capacity to approximately C$ 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 December 31, 2022 by $133.6 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 $158.0 million.

- **Dividend:** CES remains confident in its ability to continue generating strong surplus free cash flow and on November 10, 2022, the Company's Board of Directors approved a 25% increase to the quarterly dividend from $0.016 per share to $0.020 per share, resulting in an annualized dividend of $0.080 per share. The increased dividend returns additional value to shareholders while preserving the strength of the Company's balance sheet and maintaining ample liquidity to fund capital allocation alternatives.

OUTLOOK

The recovery in global energy demand combined with several years of lower investment in the upstream oil and gas sector have resulted in a balanced market for oil and natural gas, higher commodity prices, and 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 2023, moderated by potential 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 2023 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 2023 capital expenditures to be approximately $55.0 million split evenly between maintenance and expansion capital. 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 in 2022, 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 prioritizes cash flow and as significant surplus free cash flow is generated from current record revenue levels, CES intends to continue to reduce leverage and assess increases to its dividend and share buyback activity.

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:

	Revenue					
	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2022**	2021	% Change	**2022**	2021	% Change
United States[1]	**378,478**	233,842	62 %	**1,276,944**	774,112	65 %
Canada[1]	**184,193**	133,952	38 %	**645,375**	422,308	53 %
	562,671	367,794	53 %	**1,922,319**	1,196,420	61 %

[1]*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 December 31,			Year Ended December 31,		
	2022	2021	% Change	**2022**	2021	% Change
US	**28,736**	27,495	5 %	**28,341**	27,195	4 %
Canada	**7,761**	7,194	8 %	**7,134**	6,722	6 %
Total Treatment Points[1]	**36,497**	34,689	5 %	**35,475**	33,917	5 %
US	**13,343**	8,823	51 %	**46,807**	31,637	48 %
Canada	**7,145**	5,457	31 %	**24,858**	18,172	37 %
Total Operating Days[1]	**20,488**	14,280	43 %	**71,665**	49,809	44 %
US	**145**	96	51 %	**128**	87	48 %
Canada	**78**	59	32 %	**68**	50	36 %
Total Average Rig Count[1]	**223**	155	44 %	**196**	137	44 %
US industry rig count[2]	**760**	546	39 %	**705**	462	53 %
Canadian industry rig count[3]	**208**	173	20 %	**190**	144	32 %
US DF Market Share[1]	**19%**	18 %	1 %	**18 %**	19 %	(1)%
Canadian DF Market Share[1]	**38%**	34 %	4 %	**36 %**	35 %	1 %

[1]*Refer to "Operational Definitions" for further detail.*
[2] *Based on the monthly average of Baker Hughes published weekly land data for the United States in the referenced period.*
[3] *Based on the monthly average of CAOEC published weekly data for Western Canada in the referenced period.*

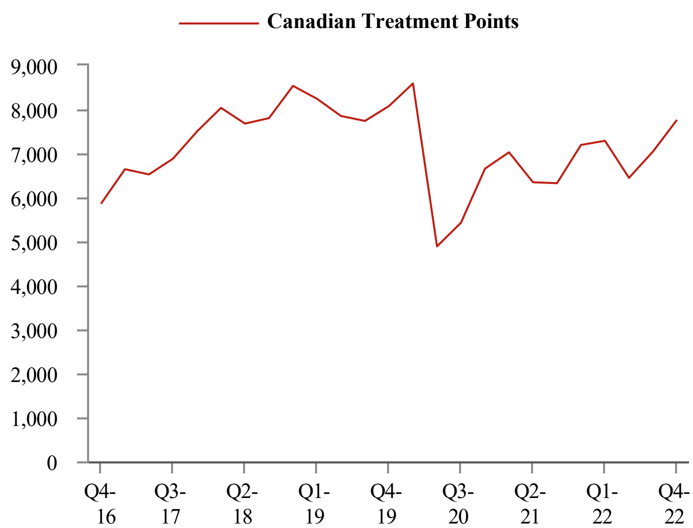
Industry activity levels during Q4 2022 showed another consecutive quarter of improvement over the comparative period driven by a constructive energy supply-demand environment. CES has been able to capitalize on these positive developments, with revenues for the three months ended December 31, 2022 representing a 53% increase as compared to Q4 2021, and revenues for the twelve months ended December 31, 2022 representing a 61% increase relative to the comparative 2021 period.

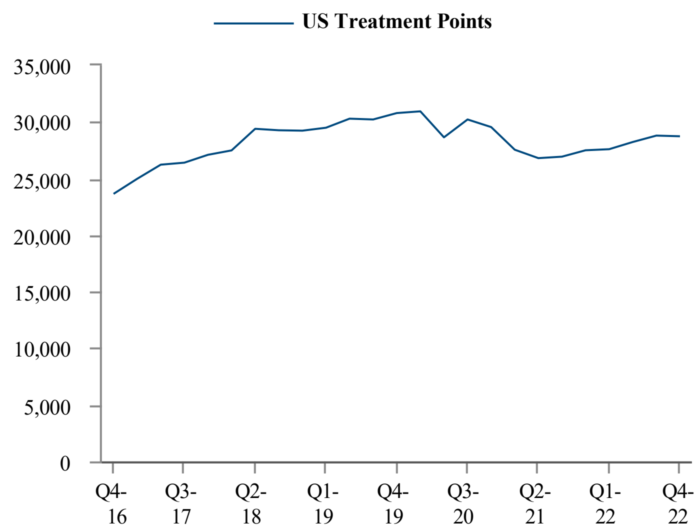
The US industry rig count increased by 39% from 546 rigs in Q4 2021 to 760 rigs in Q4 2022 as activity levels have increased substantially year over year. Correspondingly, CES' US average rig count increased 51% to 145 rigs in Q4 2022 compared to 96 rigs in Q4 2021, and US Operating Days were up 51% relative to Q4 2021. CES was able to participate in this improved drilling environment with US DF Market Share of 19% in the fourth quarter. The US production chemicals business saw an increase in production and frac related chemical sales, as well as bulk product sales in Q4 2022 from Q4 2021 as actual volumes and revenues realized per treatment point continued to increase leading to higher contributions following a 5% increase in treatment points as compared to Q4 2021.

The Canadian industry rig count increased by 20% from 173 rigs in Q4 2021 to 208 rigs in Q4 2022 as supply and demand fundamentals continue to be supportive of the sector. Correspondingly, CES' Canadian average rig count increased 32% to 78 rigs in Q4 2022 compared to 59 rigs in Q4 2021, and Canadian Operating Days were up 31% relative to Q4 2021. Canadian Drilling Fluids Market Share for Q4 2022 was 38%. Canadian Treatment Points increased by 8% 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, Treatment Points have continued to generally trend upward since Q4 2016, however 2020 and 2021 were 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 twelve months ended December 31, 2022 is $3.1 million and $11.5 million, respectively, (three and twelve months ended December 31, 2021 - $1.8 million and $6.3 million, respectively) 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 December 31,		Year Ended December 31,	
	2022	2021	**2022**	2021
Top five customers as a % of total revenue[1]	**27 %**	28 %	**27 %**	27 %
Top customer as a % of total revenue[1]	**9 %**	9 %	**9 %**	11 %

[1]*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.*

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.

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2022**	2021	Change	**2022**	2021	Change
Gross Margin	**118,885**	75,549	43,336	**396,948**	261,077	135,871
Gross Margin % of revenue[1]	**21 %**	21 %	— %	**21 %**	22 %	(1)%
Add back (deduct):						
Depreciation included in cost of sales	**13,427**	11,499	1,928	**50,702**	45,924	4,778
Gain on sale of building	**—**	—	—	**—**	(4,444)	4,444
Adjusted Gross Margin[2]	**132,312**	87,048	45,264	**447,650**	302,557	145,093
Adjusted Gross Margin[2] % of revenue	**24 %**	24 %	— %	**23 %**	25 %	(2)%

[1]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.
[2]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 twelve months ended December 31, 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 year ended December 31, 2022, as compared to $0.06 million and $2.9 million, respectively, for three and twelve months ended December 31, 2021. As a percentage of revenue, Adjusted Gross Margin for Q4 2022 is inline with Q4 2021 as targeted pricing increases have been realized and cost inflation moderated. As a percentage of revenue, Adjusted Gross Margin is lower for the year ended December 31, 2022 relative to the comparative period 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 year. For the twelve 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.

	Three Months Ended December 31,			Year Ended December 31,		
$000s	**2022**	2021	Change	**2022**	2021	Change
General and administrative expenses	**62,993**	53,358	9,635	**229,962**	186,921	43,041
G&A expenses % of revenue[1]	**11 %**	15 %	(3)%	**12 %**	16 %	(4)%
Deduct:						
Stock-based compensation	**4,687**	3,867	820	**15,552**	13,637	1,915
Depreciation & amortization	**6,243**	5,372	871	**23,782**	22,054	1,728
Management transition costs	—	4,829	(4,829)	—	4,829	(4,829)
Adjusted General and Administrative Costs[2]	**52,063**	39,290	12,773	**190,628**	146,401	44,227
Adjusted G&A costs[2] % of revenue	**9 %**	11 %	(2)%	**10 %**	12 %	(2)%

[1]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.

[2]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.

The increases in Adjusted General and Administrative Costs for the three and twelve months ended December 31, 2022 are primarily reflective of increased activity levels and associated headcount. For the twelve 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 twelve months ended December 31, 2022 as compared with three and twelve months ended December 31, 2021, as the increase in revenue levels year over year has outpaced the increase in the fixed cost base. For year ended December 31, 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 $0.06 million and $2.5 million for three and twelve months ended December 31, 2021, respectively.

Stock-Based Compensation

Stock-based compensation expense increased by 21% and 14%, respectively, for the three and twelve months ended December 31, 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 appreciation in the Company's share price.

Finance Costs

For the three and twelve months ended December 31, 2022 and 2021, finance costs were comprised of the following:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2022**	2021	**2022**	2021
Interest on debt, net of interest income	**9,195**	5,606	**29,100**	21,197
Amortization of debt issue costs	**790**	312	**2,012**	1,350
Foreign exchange (gain) loss	**(2,212)**	70	**10,426**	667
Financial derivative (gain) loss	**(2,378)**	(524)	**(2,312)**	181
Gain on repurchase of senior unsecured notes	**—**	—	**—**	(12)
Other finance costs (income)	**266**	(164)	**342**	(994)
Finance costs	**5,661**	5,300	**39,568**	22,389

Interest expense

Finance costs for the three and twelve months ended December 31, 2022 include interest on debt, net of interest income, of $9.2 million and $29.1 million, respectively, compared to $5.6 million and $21.2 million, respectively, for the three and twelve months ended December 31, 2021. Average draws and reference interest rates on CES' Senior Facility have both been higher throughout 2022 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 $4.7 million and $18.4 million for the three and twelve months ended December 31, 2022, respectively (2021 - $4.6 million and $18.4 million, respectively).

Foreign exchange gains and losses

Finance costs for the three and twelve months ended December 31, 2022 include a net foreign exchange gain of $2.2 million and loss of $10.4 million, respectively, compared to a loss of $0.1 million and $0.7 million for each of the three and twelve months ended December 31, 2021,which are primarily related to the Company’s USD denominated cash held in Canada. The higher loss in the twelve months ended December 31, 2022 relative to the comparative period was driven by higher USD denominated draws held in Canada, coupled with a significant appreciation in the USD in the twelve months ended December 31, 2022 relative to the comparative period.

Financial derivative gains and losses

Finance costs for the three and twelve months ended December 31, 2022 include a net derivative gain of $2.4 million and $2.3 million, respectively (2021 - net gain of $0.5 million and net loss of $0.2 million, respectively) relating to the Company’s foreign currency and equity derivative contracts. As of December 31, 2022, the Company had a $2.2 million financial derivative asset 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 December 31, 2022, the Company had entered into the following foreign exchange USD forward purchase contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance $000s	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2023	US$3,000	Deliverable Forward	Physical Purchase	$1.3461
February 2023	US$1,000	Deliverable Forward	Physical Purchase	$1.3292
Total	US$4,000			$1.3419

At December 31, 2022, the Company had $25.0 million outstanding in USD forward purchase contracts at an exchange rate of $1.3650, maturing in January 2023, as a result of USDCAD swaps entered into in December 2022, which allowed the Company to utilize excess CAD cash flow to pay down previously outstanding USD draws on the Senior Facility.

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 December 31, 2022:

Period	Price	Contract	Notional Principal	Number of Shares
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
Total	$2.2246		$9,635	4,335,797

Current and Deferred Income Taxes

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

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2022**	2021	**2022**	2021
Current income tax expense	**1,924**	1,705	**6,937**	4,282
Deferred income tax expense (recovery)	**7,775**	(9,210)	**24,599**	(1,835)
Total income tax expense (recovery)	**9,699**	(7,505)	**31,536**	2,447

Current income tax expense increased for the three and twelve months ended December 31, 2022 relative to comparative periods due to increased activity levels in Canada and the US. Deferred income tax expense increased for the three and twelve months ended December 31, 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 year that continued into the fourth quarter, CES continued to make strategic use of its balance sheet to finance working capital build. The Company had a Working Capital Surplus of $691.1 million as at December 31, 2022 compared to $666.1 million as at September 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. Year over year, working capital build was impacted by cost inflation and the appreciation in the US dollar on translation of working capital balances held in the US. As at December 31, 2022 CES' Working Capital Surplus of $691.1 million offset Total Debt of $557.5 million by $133.6 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 $491.5 million as at December 31, 2022, compared to $395.2 million at December 31, 2021. The increase of $96.3 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 $16.3 million compared with $4.1 million in the comparative year. Additional discussion relating to the Company's Senior Facility and other long-term financial liabilities is included in the Liquidity and Capital Resources section of this MD&A.

Related Party Transactions
Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2022, remuneration of $20.5 million (2021 - $15.1 million) included $15.1 million of salaries and cash-based compensation and $5.4 million of stock-based compensation costs (2021 – $9.7 million and $5.4 million, respectively). During the year ended December 31, 2021, the Company recorded general and administrative expenses of $4.8 million in respect of one-time management transition costs.

During the three and twelve months ended December 31, 2022, CES paid rent of nil and $0.01 million (2021 - nil and $0.07 million) to an executive officer of the Company for use of a temporary rental property. These transactions have been accounted for at the exchange amount being the amount agreed to by the related parties, which approximates the arm's length equivalent fair value.

QUARTERLY FINANCIAL SUMMARY

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

	Three Months Ended							
	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021
Revenue								
United States(1)	**378,478**	349,503	300,167	248,796	233,842	196,966	175,257	168,047
Canada(1)	**184,193**	175,214	133,483	152,485	133,952	117,429	78,348	92,579
Revenue	**562,671**	524,717	433,650	401,281	367,794	314,395	253,605	260,626
Net income	**40,408**	24,455	20,105	10,250	24,723	13,372	6,667	5,122
per share– basic	***0.16***	*0.10*	*0.08*	*0.04*	*0.10*	*0.05*	*0.03*	*0.02*
per share– diluted	***0.15***	*0.09*	*0.08*	*0.04*	*0.09*	*0.05*	*0.03*	*0.02*
Adjusted EBITDAC (2)	**80,249**	73,289	61,027	42,457	47,758	42,035	32,005	34,358
per share– basic(2)	***0.31***	*0.29*	*0.24*	*0.17*	*0.19*	*0.16*	*0.13*	*0.13*
per share– diluted(2)	***0.31***	*0.28*	*0.23*	*0.16*	*0.18*	*0.16*	*0.12*	*0.13*
Dividends declared	**5,090**	4,092	4,099	4,078	4,061	4,078	—	—
per share	***0.020***	*0.016*	*0.016*	*0.016*	*0.016*	*0.016*	—	—
Shares Outstanding								
End of period - basic	**254,515,682**	255,728,104	256,159,018	254,863,235	253,830,896	254,871,878	255,525,375	254,415,334
End of period - fully diluted(3)	**260,438,045**	261,818,856	262,269,370	262,100,659	260,434,918	262,909,706	263,751,282	264,150,408
Weighted average – basic	**255,031,387**	256,246,967	255,568,154	254,024,573	255,742,883	255,194,323	254,890,507	255,244,854
Weighted average – diluted	**261,003,345**	262,332,402	262,206,332	260,718,253	262,693,594	263,284,730	263,803,688	263,748,333

1*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.*
2*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.*
3*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 Shares Outstanding, End of period - fully diluted is Common shares outstanding. 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.

SELECTED ANNUAL INFORMATION

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

	Year Ended December 31,				
($000s, except per share amounts)	**2022**	% Change	2021	% Change	2020
Revenue					
United States[2]	**1,276,944**	65 %	774,112	29 %	600,898
Canada[2]	**645,375**	53 %	422,308	47 %	287,149
Total revenue	**1,922,319**	61 %	1,196,420	35 %	888,047
Income (loss) before taxes	**126,754**	142 %	52,331	nmf	(276,801)
per share - basic	***0.50***	*138 %*	*0.21*	*nmf*	*(1.05)*
per share - diluted	***0.48***	*140 %*	*0.20*	*nmf*	*(1.05)*
Net income (loss)	**95,218**	91 %	49,884	nmf	(222,903)
per share - basic	***0.37***	*85 %*	*0.20*	*nmf*	*(0.85)*
per share - diluted	***0.36***	*89 %*	*0.19*	*nmf*	*(0.85)*
Adjusted EBITDAC [3]	**257,022**	65 %	156,156	53 %	102,168
per share - basic[3]	***1.01***	*65 %*	*0.61*	*58 %*	*0.39*
per share - diluted[3]	***0.98***	*66 %*	*0.59*	*53 %*	*0.39*
Dividends declared	**17,359**	113 %	8,139	176 %	2,948
per share	***0.0680***	*113 %*	*0.0320*	*184 %*	*0.0113*

	As at December 31,				
Financial position ($000s)	**2022**	% Change	2021	% Change	2020
Total assets	**1,411,003**	30 %	1,087,598	27 %	857,888
Long-term financial liabilities[1]	**532,771**	26 %	423,077	42 %	298,776
Total Debt[4]	**557,531**	27 %	439,392	47 %	299,677
Working Capital Surplus[4]	**691,096**	50 %	459,754	68 %	273,313
Net Debt[4]	**(133,565)**	556 %	(20,362)	(177)%	26,364
Shareholders' equity	**609,049**	25 %	486,675	7 %	455,661

[1]Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations and cash settled incentive obligations.
[2]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.
[3]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.
[4]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 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.

LIQUIDITY AND CAPITAL RESOURCES

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

	As at	
$000s	**December 31, 2022**	December 31, 2021
Senior Facility	**209,276**	110,725
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**287,954**	287,954
	497,230	398,679
Less: net unamortized debt issue costs	**(5,748)**	(3,495)
Long-term debt	**491,482**	395,184

Senior Facility

In light of continued growth in activity and revenue levels, during the year ended December 31, 2022, the Company amended its syndicated senior facility (the "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). Other terms and conditions from the amendment remain materially consistent with those of the previous Senior Facility. As at December 31, 2022, the Senior Facility is comprised of a Canadian facility of $270.0 million (December 31, 2021 - $145.0 million) and a US facility of US$120.0 million (December 31, 2021 – US$70.0 million). 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.

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

As at December 31, 2022, the Company had a net draw of $208.5 million on the Senior Facility (December 31, 2021 - net draw of $110.1 million), with capitalized transaction costs of $0.8 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.

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

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

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

- Net Senior Debt is defined as Total Net Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. EBITDA for 2021 includes all amounts recognized on account of wage and rent subsidy programs in connection with the COVID-19 pandemic, including the CEWS program and CERS program, provided that such amounts do not exceed the costs in which they are meant to offset, or are subject to any repayment obligation.
- Total Net Debt is defined as all obligations, liabilities, and indebtedness excluding future income tax liabilities and deferred tax credits, office leases, other leases characterized as an operating lease, and accrued interest not yet due and payable. Total Net Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

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

	As at	
$000s	**December 31, 2022**	December 31, 2021
Net Senior Debt	**266,120**	138,438
EBITDA for the four quarters ended	**231,265**	145,687
Ratio	**1.151**	0.950
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**231,265**	145,687
Interest Expense for the four quarters ended	**28,062**	20,578
Ratio	**8.241**	7.080
Minimum	**2.500**	2.500

Senior Notes

At December 31, 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 21st and October 21st. 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 December 31, 2022, the Company was in compliance with the terms and covenants of its lending agreements. For the three and twelve months ended December 31, 2022, the Company recorded $10.2 million and $31.5 million, respectively (2021 - $6.0 million and $22.7 million, respectively) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Leases

The Company incurs lease payments under a number of lease arrangements for which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements, which includes the assessment of the appropriate durations for the related leased assets. The Company’s leases are for terms ranging from January 2023 through May 2033 with a weighted average interest rate of 5.08% (2021 - 5.11%).

As at December 31, 2021	**42,021**
Additions through business combinations	89
Additions	36,176
Interest expense	2,574
Lease payments	(23,271)
Effects of movements in exchange rates	2,056
As at December 31, 2022	**59,645**
Current portion of lease obligation	**23,231**
Long-term portion of lease obligation	**36,414**

Future minimum lease payments outstanding under the Company's lease obligations at December 31, 2022 are as follows:

Less than 1 year	25,534
1-5 years	34,020
5+ years	6,478
Total lease payments	**66,032**
Amount representing implicit interest	(6,387)
Lease obligations	**59,645**

Payments recognized in the financial statements relating to short-term leases, variable lease payments, and leases of low-value assets for the year ended December 31, 2022 were \$3.7 million (2021 - \$3.7 million). The Company's short-term leases, variable lease payments, and leases of low-value assets consist of leases of information technology, office equipment, and short-term facility rentals.

Other Indebtedness

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2022:

	Payments Due By Period[1]					
\$000s	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	227,815	6,484	—	—	—	**234,299**
Dividends payable [2]	5,090	—	—	—	—	**5,090**
Income taxes payable	—	3,195	—	—	—	**3,195**
Deferred acquisition consideration	1,529	—	1,458	1,352	—	**4,339**
Senior Facility	—	—	209,276	—	—	**209,276**
Senior Notes [3]	—	—	287,954	—	—	**287,954**
Interest on Senior Notes	—	18,357	18,357	—	—	**36,714**
Lease obligations [4]	3,889	19,342	15,649	15,003	5,762	**59,645**
Commitments [5]	5,740	9,788	23	—	—	**15,551**
Other long-term liabilities	—	—	1,716	349	—	**2,065**
	244,063	57,166	534,433	16,704	5,762	**858,128**

[1] *Payments denominated in foreign currencies have been translated using the December 31, 2022 exchange rate.*
[2] *Dividends declared as of December 31, 2022.*
[3] *The Senior Notes are due on October 21, 2024.*
[4] *Lease obligations reflect principal payments and excludes any associated interest portion.*
[5] *Commitments include amounts relating to short-term leases, leases of low-value assets, variable payments associated with long-term leases, and inventory 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 twelve months ended December 31, 2022 and 2021:

	Three Months Ended December 31,			Year Ended December 31,		
$000's	**2022**	2021	Change	**2022**	2021	Change
Net cash provided by (used in)						
Operating Activities	**38,784**	(39,506)	78,290	**(2,738)**	(74,405)	71,667
Investing Activities	**(14,184)**	(6,238)	(7,946)	**(46,791)**	(12,760)	(34,031)
Financing Activities	**(24,600)**	45,772	(70,372)	**49,529**	68,914	(19,385)

Cash Flows from Operating Activities

For Q4 2022, net cash provided by operating activities totaled $38.8 million, compared to net cash used by operating activities of $39.5 million during the three months ended December 31, 2021. For the twelve months ended December 31, 2022, net cash used in operating activities totaled $2.7 million compared to $74.4 million for the comparative period. The change was primarily driven by higher net income in both periods on increased activity levels year over year, combined with a smaller change in non-cash working capital in Q4 2022 relative to the comparative period.

Cash Flows from Investing Activities

For Q4 2022, net cash flows used in investing activities totaled $14.2 million, compared to $6.2 million during Q4 2021. For the twelve months ended December 31, 2022, net cash flows used in investing activities totaled $46.8 million compared to $12.8 million during 2021. The increase for the respective periods was driven by higher capital spending relative to the comparative periods, to support higher activity and revenue levels year over year, offset by lower proceeds on disposal of assets relative to the comparable periods in 2021. During the twelve months ended December 31, 2022, CES invested $9.6 million in respect of the acquisition of the business assets of Proflow.

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

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2022**	2021	**2022**	2021
Expansion Capital [(1)]	**7,448**	8,648	**28,714**	17,900
Maintenance Capital [(1)]	**7,568**	3,470	**21,112**	11,465
Total investment in property and equipment	**15,016**	12,118	**49,826**	29,365
Change in non-cash investing working capital	**255**	(629)	**2,568**	(3,479)
Cash used for investment in property and equipment	**15,271**	11,489	**52,394**	25,886

[1]*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 Q4 2022 included $1.7 million in support of a new mud plant at AES and $1.9 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 Q4 2022 included $4.9 million for warehouses, $1.5 million for equipment and tanks, and $0.6 million vehicles, trucks and trailers.

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 2023 capital expenditures, excluding amounts financed under lease arrangements, to be approximately $55.0 million split evenly between maintenance and expansion capital.

Cash Flows from Financing Activities

For Q4 2022, cash flows used by financing activities totaled $24.6 million compared to cash flows provided by financing activities of $45.8 million in Q4 2021. This year over year change is primarily due to a reduction in the draw on the Company's Senior Facility in Q4 2022 as required investments in working capital were significantly lower than in the comparative period. For the twelve months ended December 31, 2022, cash flows provided by financing activities totaled $49.5 million compared with $68.9 million in 2021. This decrease is primarily a result of a lower increase in the draw on the Company's Senior Facility year over year, higher dividends paid as discussed below, offset slightly by a reduced NCIB spend in the year.

Dividend Policy

The Company declared dividends to holders of common shares for the three and twelve months ended December 31, 2022, as follows:

$000s except per share amounts	**Dividend Record Date**	**Dividend Payment Date**	**Per Common Share**	**Total**
March	Mar 31	Apr 15	$0.016	**4,078**
June	Jun 30	Jul 15	$0.016	**4,099**
September	Sep 30	Oct 14	$0.016	**4,092**
December	Dec 30	Jan 13	$0.020	**5,090**
Total dividends declared			$0.068	**17,359**

During the three and twelve months ended December 31, 2022, the Company's Dividend Payout Ratio averaged 9% and 11%, respectively, as compared to 16% and 9% 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 twelve month period, the comparative ratio is higher given that the dividend was 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:

$000s except for share and per share amounts	**Three Months Ended December 31, 2022**	Year Ended December 31, 2022	Year Ended December 31, 2021
Number of shares	**1,438,500**	2,131,500	10,084,677
Cash outlay	**3,741**	5,242	16,169
Average price per share	**$2.60**	$2.46	$1.60

Since the commencement of the Company's current NCIB program, the Company repurchased 1,988,500 common shares up to December 31, 2022, at an average price of $2.49 per share for a total amount of $5.0 million. Since inception of the Company's NCIB programs on July 17, 2018, and up to December 31, 2022, the Company has repurchased 32,258,357 common shares at an average price of $2.03 per share for a total amount of $65.3 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:

	March 9, 2023	December 31, 2022	December 31, 2021
Common shares outstanding	254,632,741	254,515,682	253,830,896
Restricted Share Unit Plan ("RSU")	5,865,443	5,922,363	6,604,022
Phantom Share Unit Plan ("PSU")	5,862,471	5,860,999	5,916,448
Share Rights Incentive Plan ("SRIP")	—	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.

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:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2022**	2021	**2022**	2021
Net income	**40,408**	24,723	**95,218**	49,884
Add back (deduct):				
Depreciation on property and equipment in cost of sales	**13,427**	11,499	**50,702**	45,924
Depreciation on property and equipment in G&A	**2,058**	1,581	**7,480**	6,899
Amortization on intangible assets in G&A	**4,185**	3,791	**16,302**	15,155
Current income tax expense	**1,924**	1,705	**6,937**	4,282
Deferred income tax expense (recovery)	**7,775**	(9,210)	**24,599**	(1,835)
Stock-based compensation	**4,687**	3,867	**15,552**	13,637
Finance costs	**5,661**	5,300	**39,568**	22,389
Other loss (income)	**124**	(327)	**664**	(564)
EBITDAC	**80,249**	42,929	**257,022**	155,771
Add back (deduct):				
Management transition costs	**—**	4,829	**—**	4,829
Gain on sale of building	**—**	—	**—**	(4,444)
Adjusted EBITDAC	**80,249**	47,758	**257,022**	156,156
Adjusted EBITDAC % of Revenue	***14.3 %***	*13.0 %*	***13.4 %***	*13.1 %*
Adjusted EBITDAC per share - basic	***0.31***	*0.19*	***1.01***	*0.61*
Adjusted EBITDAC per share - diluted	***0.31***	*0.18*	***0.98***	*0.59*

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:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2022**	2021	**2022**	2021
Cash provided by (used in) operating activities	**38,784**	(39,506)	**(2,738)**	(74,405)
Adjust for:				
Change in non-cash operating working capital	**28,108**	73,040	**197,758**	191,659
Less: Maintenance Capital (1)	**(7,568)**	(3,470)	**(21,112)**	(11,464)
Less: Repayment of lease obligations	**(4,915)**	(4,966)	**(20,381)**	(19,361)
Distributable Earnings	**54,409**	25,098	**153,527**	86,429
Dividends declared	**5,090**	4,061	**17,359**	8,139
Dividend Payout Ratio	**9 %**	16 %	**11 %**	9 %

[1]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.

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:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2022**	2021	**2022**	2021
Gross Margin	**118,885**	75,549	**396,948**	261,077
Gross Margin % of revenue	**21 %**	21 %	**21 %**	22 %
Add back (deduct):				
Depreciation included in cost of sales	**13,427**	11,499	**50,702**	45,924
Gain on sale of building	**—**	—	**—**	(4,444)
Adjusted Gross Margin	**132,312**	87,048	**447,650**	302,557
Adjusted Gross Margin % of revenue	**24 %**	24 %	**23 %**	25 %

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:

	Three Months Ended December 31,		Year Ended December 31,	
$000's	**2022**	2021	**2022**	2021
General and administrative expenses	**62,993**	53,358	**229,962**	186,921
G&A expenses % of revenue	**11 %**	15 %	**12 %**	16 %
Deduct:				
Stock-based compensation	**4,687**	3,867	**15,552**	13,637
Depreciation & amortization	**6,243**	5,372	**23,782**	22,054
Management transition costs	**—**	4,829	**—**	4,829
Adjusted General and Administrative Costs	**52,063**	39,290	**190,628**	146,401
Adjusted G&A costs % of revenue	**9 %**	11 %	**10 %**	12 %

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:

	Three Months Ended December 31,		Year Ended December 31,	
$000s	**2022**	2021	**2022**	2021
Cash provided by (used in) operating activities	**38,784**	(39,506)	**(2,738)**	(74,405)
Adjust for:				
Change in non-cash operating working capital	**28,108**	73,040	**197,758**	191,659
Funds Flow from Operations	**66,892**	33,534	**195,020**	117,254

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:

	As at	
$000's	**December 31, 2022**	December 31, 2021
Long-term financial liabilities(1)	**532,771**	423,077
Current portion of finance lease obligations	**23,231**	16,315
Current portion of deferred acquisition consideration	**1,529**	—
Total Debt	**557,531**	439,392
Deduct Working Capital Surplus:		
Current assets	**933,680**	619,201
Current liabilities(2)	**(242,584)**	(159,447)
Working Capital Surplus	**691,096**	459,754
Net Debt	**(133,565)**	(20,362)

[1]Includes long-term portion of the Senior Facility, the Senior Notes, lease obligations, deferred acquisition consideration, and cash settled incentive obligations.
[2]Excludes current portion of lease liabilities and deferred acquisition consideration.

Shares outstanding, End of period - fully diluted - Shares outstanding, End of period - fully diluted is a non-GAAP measure that has been reconciled to Common Shares outstanding for the financial periods, being the most directly comparable measure calculated in accordance with IFRS. This measure is not intended to be considered more meaningful than Common shares outstanding. Management believes that this metric is a key measure to assess the total potential shares outstanding for the financial periods and is calculated as follows:

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	**2022**	2021
Common shares outstanding	**254,515,682**	253,830,896	**254,515,682**	253,830,896
Restricted share units	**5,922,363**	6,604,022	**5,922,363**	6,604,022
Shares outstanding, end of period - fully diluted	**260,438,045**	260,434,918	**260,438,045**	260,434,918

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 consolidated financial statements and the reported amounts of revenue and expenses for the period. Although estimates and assumptions must be made during the financial statement preparation process, it is Management's opinion that none of the estimates or assumptions were highly uncertain at the time they were made. Actual outcomes may differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

Significant judgments

Determining CGUs

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies can be found in Note 3 of the consolidated financial statements for the year ended December 31, 2021. There have been no new standards or interpretations issued during the three and twelve months ended December 31, 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.

As at December 31, 2022, Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of CES' disclosure controls and procedures, as detailed by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2022, the disclosure controls and procedures were effective.

Internal Controls over Financial Reporting ("ICFR")

Management of CES is responsible for establishing and maintaining ICFR for CES to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with CES' GAAP and includes those policies and procedures that (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of CES; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the CES' GAAP, and that receipts and expenditures of CES are being made only in accordance with authorizations of management and directors of CES; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the CES' assets that could have a material effect on the annual financial statements or interim financial statements.

Management, under the direction and supervision of the President and Chief Executive Officer and the Chief Financial Officer and based on criteria set out in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, conducted an evaluation of the design and effectiveness of CES' ICFR as at December 31, 2022. Based on their assessment, Management determined that ICFR were effective as at December 31, 2022.

There have been no changes to CES' internal controls over financial reporting during the year ended December 31, 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' 2022 Annual Report, CES' Annual Information Form dated March 9, 2023 in respect of the year ended December 31, 2022, 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.

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 period preceding 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. In addition, labor and supply chain constraints have moderated the industry's ability to significantly increase exploration and development activities. 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 are also intensifying, including the conflict in Ukraine and increased tensions between China and the United States, which 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, or if tensions between China and the United States develop into a more significant trade and economic dispute, 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 December 31, 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, as well as China's relationship with the rest of the western world, 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 9, 2023 for the year ended December 31, 2022, and in particular to the heading "Risk Factors" for further risks associated with the business, operations, and structure of CES, which is available on CES' SEDAR profile at www.sedar.com.

FORWARD-LOOKING INFORMATION & STATEMENTS

Certain statements in this MD&A may constitute forward-looking information or forward-looking statements (collectively referred to as "forward-looking information"), which involves known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of CES, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, such information uses such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", and other similar terminology. This information reflects CES' current expectations regarding future events and operating performance and speaks only as of the date of the MD&A. Forward-looking information involves significant risks and uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information, including, but not limited to, the factors discussed below. Management of CES believes the material factors, expectations and assumptions reflected in the forward-looking information are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information contained in this document speaks only as of the date of the document, and CES assumes no obligation to publicly update or revise such information to reflect new events or circumstances, except as may be required pursuant to applicable securities laws or regulations.

In particular, this MD&A contains forward-looking information pertaining to the following: the seasonality of CES' business and the ability of CES to manage seasonal activity swings; the certainty and predictability of future cash flows and earnings; Management's proposed corporate strategy for the Company; ability of CES to manage overall fluctuations in demand for CES' products and services; expectations regarding improving industry conditions and the Company's ability to generate free cash flow to sustain the quarterly dividend; expectations regarding CES' revenue and free cash flow generation and the potential use of such free cash flow including to increase its dividend or repurchase the common shares of the Company; expectations regarding the stabilization of end market activity levels; expectations regarding CES' customer's capital expenditures and exploration and development activities; 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; 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 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 2023, 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; 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 2023; 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 and political tensions (including the conflict in Ukraine and tensions between China and the US) 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; 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, 2022 and “Risks and Uncertainties” in this MD&A.

Without limiting the foregoing, the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this MD&A is based upon independent industry publications and websites or was based on estimates derived from the same along with the knowledge of and experience of management in the markets in which the Company operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of these sources have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, CES. Actual outcomes may vary materially from those forecasted in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Company believes this data can be reasonably relied on, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. The Company has not independently verified any of the data from third party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources.

ADDITIONAL INFORMATION

Additional information related to CES can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Information is also accessible on CES’ web site at www.cesenergysolutions.com.

CES Energy Solutions

Consolidated Financial Statements

For the Year Ended December 31, 2022 and 2021

MANAGEMENT’S REPORT

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

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

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

“Kenneth E. Zinger”
Kenneth E. Zinger
President & Chief Executive Officer
March 9, 2023

“Anthony M. Aulicino”
Anthony M. Aulicino
Chief Financial Officer
March 9, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of CES Energy Solutions Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022 and 2021, and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue Recognition – Refer to Note 3 to the consolidated financial statements

Key Audit Matter Description

The Company's revenue is comprised of the sale of products and the provision of services. Revenue on the sale of products is recognized as the Company satisfies the performance obligations as control is transferred to its customers. Revenue on the provision of services is recognized as the services are performed.

Revenue is a key audit matter due to the significant audit effort required to perform audit procedures related to the Company's revenue recognition.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to revenue recognition included, among others, on a sample basis, evaluated the recognition of revenue by obtaining confirmations, or obtaining and inspecting customer approved invoices, and cash receipts. Where confirmations or customer approved invoices had not been received, obtained and inspected shipping documents and other support as applicable.

Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 9, 2023

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

	As at	
	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Accounts receivable (note 20)	**479,360**	308,836
Financial derivative asset (note 20)	**2,213**	388
Income taxes receivable (note 15)	**935**	823
Inventory (note 5)	**428,144**	273,501
Prepaid expenses and deposits	**23,028**	35,653
	933,680	619,201
Property and equipment (note 6)	**283,432**	260,752
Right of use assets (note 7)	**62,199**	46,482
Intangible assets (note 8)	**30,551**	33,151
Deferred income tax asset (note 15)	**36,335**	58,646
Other assets (note 9)	**10,114**	18,839
Goodwill (note 8)	**54,692**	50,527
	1,411,003	1,087,598
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**234,299**	153,282
Dividends payable (note 18)	**5,090**	4,061
Income taxes payable (note 15)	**3,195**	2,104
Current portion of deferred acquisition consideration (note 4)	**1,529**	—
Current portion of lease obligations (note 11)	**23,231**	16,315
	267,344	175,762
Long-term debt (note 10)	**491,482**	395,184
Lease obligations (note 11)	**36,414**	25,706
Deferred acquisition consideration (note 4)	**2,810**	—
Deferred income tax liability (note 15)	**1,839**	2,084
Other long-term liabilities (note 17)	**2,065**	2,187
	801,954	600,923
Commitments (note 19)		
Shareholders' equity		
Common shares (note 16)	**658,820**	658,614
Contributed surplus	**34,866**	33,819
Deficit	**(272,076)**	(349,935)
Accumulated other comprehensive income	**187,439**	144,177
	609,049	486,675
	1,411,003	1,087,598

APPROVED ON BEHALF OF THE BOARD:

"Kenneth E. Zinger"	*"Kyle D. Kitagawa"*
Kenneth E. Zinger	Kyle D. Kitagawa
President & Chief Executive Officer and Director	*Director & Chairman, Audit Committee*

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

CES Energy Solutions Corp.

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

	Year Ended December 31,	
	2022	2021
Revenue	**1,922,319**	1,196,420
Cost of sales (note 12)	**1,525,371**	935,343
Gross margin	**396,948**	261,077
General and administrative expenses (note 13)	**229,962**	186,921
Operating profit	**166,986**	74,156
Finance costs (note 14)	**39,568**	22,389
Other loss (income)	**664**	(564)
Income before taxes	**126,754**	52,331
Current income tax expense (note 15)	**6,937**	4,282
Deferred income tax expense (note 15)	**24,599**	(1,835)
Net income	**95,218**	49,884
Other comprehensive income (items that may be subsequently reclassified to profit and (loss)):		
Unrealized foreign exchange gain (loss) on translation of foreign operations	**44,803**	(1,845)
Change in fair value of other assets, net of tax	**(1,541)**	6
Comprehensive income	**138,480**	48,045
Net income per share (note 16)		
Basic	**0.37**	0.20
Diluted	**0.36**	0.19

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

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

	Year Ended December 31,	
	2022	2021
COMMON SHARES		
Balance, beginning of year	**658,614**	663,275
Issued pursuant to stock-based compensation (note 17)	**5,292**	11,402
Issued pursuant to stock settled director fees	**156**	106
Common shares repurchased and canceled through NCIB (note 16)	**(5,242)**	(16,169)
Balance, end of year	**658,820**	658,614
CONTRIBUTED SURPLUS		
Balance, beginning of year	**33,819**	38,052
Reclassified pursuant to stock-based compensation (note 16)	**(5,292)**	(11,402)
Stock-based compensation expense (note 17)	**6,339**	7,169
Balance, end of year	**34,866**	33,819
DEFICIT		
Balance, beginning of year	**(349,935)**	(391,680)
Net income	**95,218**	49,884
Dividends declared (note 18)	**(17,359)**	(8,139)
Balance, end of year	**(272,076)**	(349,935)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	**144,177**	146,016
Unrealized foreign exchange gain (loss) on translation of foreign operations	**44,803**	(1,845)
Change in fair value of other assets, net of tax	**(1,541)**	6
Balance, end of year	**187,439**	144,177
	609,049	486,675

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

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

	Year Ended December 31,	
	2022	2021
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income	**95,218**	49,884
Adjustments for:		
Depreciation and amortization	**74,484**	67,978
Stock-based compensation (note 17)	**6,339**	7,169
Other non-cash (income) loss	**(1,635)**	934
Deferred income tax recovery (note 15)	**24,599**	(1,835)
Gain on disposal of assets	**(3,985)**	(6,864)
Gain on repurchase of senior unsecured notes	**—**	(12)
Change in non-cash working capital (note 22)	**(197,758)**	(191,659)
	(2,738)	(74,405)
FINANCING ACTIVITIES:		
Repurchase of senior unsecured notes (note 10)	**—**	(988)
Senior notes consent solicitation	**(3,815)**	—
Repayment of lease obligations	**(20,381)**	(19,361)
Increase in Senior Facility	**95,297**	109,510
Shareholder dividends	**(16,330)**	(4,078)
Common shares repurchased and cancelled through NCIB (note 16)	**(5,242)**	(16,169)
	49,529	68,914
INVESTING ACTIVITIES:		
Investment in property and equipment	**(52,394)**	(25,886)
Investment in intangible assets	**(779)**	(1,537)
Investment in other assets (note 9)	**7,369**	(3,249)
Business combination (note 4)	**(9,560)**	—
Proceeds on disposal of assets	**8,573**	17,912
	(46,791)	(12,760)
CHANGE IN CASH	**—**	(18,251)
Cash, beginning of year	**—**	18,251
Cash, end of year	**—**	—
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	**29,026**	21,339
Income taxes paid	**5,900**	2,617

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

1. The Company

CES Energy Solutions Corp. (the "Company" or "CES") is a company domiciled in Canada and was incorporated under the Canada Business Corporations Act on November 13, 1986. CES' principal place of business is located at Suite 1400, 332 – 6th Avenue SW, Calgary, Alberta, Canada T2P 0B2. The consolidated financial statements of the Company as at and for the year ended December 31, 2022 and 2021 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company" or "CES").

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

2. Basis of Presentation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Company's Board of Directors on March 9, 2023.

Basis of measurement

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

Functional and presentation currency

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

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

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

3. Significant Accounting Policies

a) Consolidation

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

b) Inventory

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

c) Property and equipment

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

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

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

Buildings	3-30 years
Vehicles, trucks, and transportation equipment	3-7 years
Machinery and equipment	3-20 years
Office & computer equipment	1-5 years

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

d) Leases and ROU Assets

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

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

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

e) Identifiable intangible assets

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

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

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

f) Goodwill

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

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

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

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

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

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

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

j) Stock-based compensation
Equity settled transactions
Restricted Share Units ("RSU") are awarded to employees, officers, and directors of the Company and entitle the holder to a number of common shares plus reinvested notional dividends. Compensation expense for RSUs is based on the estimated fair value of the award at the date of grant, calculated using a five day volume weighted average share price. The Company uses the fair value method to account for Share Rights granted to employees, officers, and directors of the Company for grants under the Company's Share Rights Incentive Plan ("SRIP"). Compensation expense for Share Rights granted is based on the estimated fair value, using a Black-Scholes option pricing model, at the time of grant. Compensation expense associated with share-based compensation plans is recognized in net income over the vesting period of the respective plans with a corresponding increase to contributed surplus. CES estimates the forfeiture rate for its share-based compensation plans at the date of grant based on the

number of awards expected to vest taking into consideration past experience and future expectations and are adjusted upon actual vesting.

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

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

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

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

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

Deferred income tax expense and recoveries are recognized in respect of unused tax losses and tax credits as well as for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates, which are expected to apply to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax liability is generally recognized for all taxable temporary differences. Deferred income tax liabilities are not recognized on the following:

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

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

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

n) Financial instruments

Classification and Measurement of Financial Instruments

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

Amortized Cost

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

FVTPL

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

FVTOCI

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

Fair value measurement

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

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

Derecognition
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which either: substantially all of the risks and rewards of ownership of the financial asset are transferred; or the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. In instances where the Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognized.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in net income.

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

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

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

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

r) Significant accounting judgments and estimates
The preparation of the consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual outcomes may differ from these estimates. These consolidated financial statements include estimates, which by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. As such, actual results may differ from estimates and the effect of such differences may be material. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

Significant judgments

Determining CGUs

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

Leases

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

Significant estimates

Accounts receivable

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

Inventories

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

Property and equipment

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

Recoverability of asset carrying values

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

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

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

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

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

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

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

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

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

s) Recent Accounting Pronouncements
There are new amendments to accounting standards that are effective for periods on or after January 1, 2023, with early adoption permitted. These have not been applied in the Consolidated Financial Statements for the year ended December 31, 2022. Assessment of the impacts of these standards is ongoing, however no material impact on the Company's Consolidated Financial Statements has been identified.

4. Business Combination

Proflow Solutions, LLC
On February 1, 2022, through a US subsidiary, CES closed the acquisition of all of the business assets of Proflow Solutions LLC. ("Proflow"). Proflow is an oilfield chemical provider and service company that operates across the Gulf of Mexico providing production chemicals for the upstream oil and gas industry along with account management services. The Proflow acquisition will accelerate the expansion of the Company's US production and specialty chemicals operations into the offshore space with a particular focus in the Gulf of Mexico.

The aggregate purchase price was $13,626 (US$10,735) consisting of $8,278 (US$6,522) in cash paid on the date of the acquisition, $1,282 (US$1,010) in cash paid for other post close working capital adjustments, and $4,066 (US$3,203) in deferred consideration. In conjunction with the Proflow acquisition, the Company recorded $31 in transaction costs to general and administrative expenses during the year ended December 31, 2022.

The Company's purchase price allocation for the Proflow acquisition is as follows:

Allocation of purchase price	
Current assets	2,017
Property and equipment	285
Right of use assets	89
Intangible assets	11,056
Goodwill	669
Total assets	**14,116**
Current liabilities	(401)
Lease obligations	(89)
Total liabilities	**(490)**
Net assets acquired	**13,626**

Consideration given	
Cash	8,278
Consideration payable post-close	1,282
Deferred consideration	4,066
Total consideration	**13,626**

From the date of this acquisition to December 31, 2022, Proflow contributed an estimated $9,980 (US$7,636) of revenue to the Company. The amount of profit or loss attributable to the acquisition from the date of acquisition to December 31, 2022, and the amount of revenue or profit or loss attributable to the acquisition as if the business combination had been completed on January 1, 2022, is not readily determinable. The goodwill recognized on the Proflow acquisition is primarily attributed to the assembled workforce, the synergies existing within the acquired businesses, and the synergies which will contribute to operational efficiencies within the rest of the Company. The goodwill is expected to be deducted straight-line over 15 years for US tax purposes.

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

Deferred Acquisition Consideration
A summary of the changes to the Company's deferred acquisition consideration balance is presented below:

Balance at December 31, 2021	—
Additions through business combinations	4,066
Effect of movements in exchange rates	273
Balance at December 31, 2022	**4,339**
Current portion	1,529
Long-term portion	2,810

5. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2022, was $1,053,917 (2021 - $607,236). During the year ended December 31, 2022, the Company recorded $2,696 (2021 - $398) of inventory valuation write-downs.

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

6. Property and Equipment

Property and equipment are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Office & computer equipment	Total
Cost:					
Balance at December 31, 2021	182,160	107,847	203,840	15,850	509,697
Additions through business combinations	—	175	110	—	285
Additions	10,404	13,251	23,149	3,000	49,804
Transfers	—	760	181	—	941
Disposals	(2,956)	(4,089)	(5,005)	(520)	(12,570)
Effect of movements in exchange rates	8,508	3,596	10,077	782	22,963
Balance at December 31, 2022	198,116	121,540	232,352	19,112	571,120
Depreciation:					
Balance at December 31, 2021	58,750	80,916	95,460	13,819	248,945
Depreciation for the year(1)	9,389	11,020	16,048	1,754	38,211
Disposals	(1,509)	(3,062)	(4,602)	(502)	(9,675)
Effect of movements in exchange rates	2,765	2,091	4,755	596	10,207
Balance at December 31, 2022	69,395	90,965	111,661	15,667	287,688
Carrying amount at December 31, 2022	**128,721**	**30,575**	**120,691**	**3,445**	**283,432**

1Included in accumulated depreciation for the year ended December 31, 2022 is $301 that has been allocated to inventory.

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Office & computer equipment	Total
Cost:					
Balance at December 31, 2020	180,767	111,678	186,702	15,202	494,349
Additions	5,749	3,570	19,034	915	29,268
Transfers	—	1,867	1,174	—	3,041
Disposals	(3,881)	(8,869)	(2,598)	(229)	(15,577)
Effect of movements in exchange rates	(475)	(399)	(472)	(38)	(1,384)
Balance at December 31, 2021	182,160	107,847	203,840	15,850	509,697
Depreciation:					
Balance at December 31, 2020	51,056	72,852	83,720	12,562	220,190
Depreciation for the year(1)	8,984	12,160	13,634	1,509	36,287
Disposals	(1,227)	(3,934)	(1,724)	(228)	(7,113)
Effect of movements in exchange rates	(63)	(162)	(170)	(24)	(419)
Balance at December 31, 2021	58,750	80,916	95,460	13,819	248,945
Carrying amount at December 31, 2021	**123,410**	**26,931**	**108,380**	**2,031**	**260,752**

1Included in accumulated depreciation for the year ended December 31, 2021 is $320 that has been allocated to inventory.

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

7. Right of Use Assets

Right of use assets are comprised of the following balances:

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Intangible ROU assets	Total
Cost:					
Balance at December 31, 2021	33,983	53,480	3,213	510	91,186
Additions through business combinations	89	—	—	—	89
Additions	14,570	20,187	1,653	—	36,410
Transfers	—	(3,044)	(604)	—	(3,648)
Disposals	(5,398)	(11,560)	—	—	(16,958)
Effect of movements in exchange rates	1,502	2,748	75	35	4,360
Balance at December 31, 2022	44,746	61,811	4,337	545	111,439
Depreciation:					
Balance at December 31, 2021	12,972	29,428	2,096	208	44,704
Depreciation for the year	6,413	13,098	714	171	20,396
Transfers	—	(2,371)	(336)	—	(2,707)
Disposals	(5,111)	(9,971)	—	—	(15,082)
Effect of movements in exchange rates	507	1,370	30	22	1,929
Balance at December 31, 2022	14,781	31,554	2,504	401	49,240
Carrying amount at December 31, 2022	**29,965**	**30,257**	**1,833**	**144**	**62,199**

	Land and buildings	Vehicles, trucks, and transportation equipment	Machinery and equipment	Intangible ROU assets	Total
Cost:					
Balance at December 31, 2020	22,591	51,697	4,629	407	79,324
Additions	14,456	14,215	38	106	28,815
Transfers	—	(4,733)	(1,447)	—	(6,180)
Disposals	(2,997)	(7,510)	(6)	—	(10,513)
Effect of movements in exchange rates	(67)	(189)	(1)	(3)	(260)
Balance at December 31, 2021	33,983	53,480	3,213	510	91,186
Depreciation:					
Balance at December 31, 2020	9,880	27,096	2,000	68	39,044
Depreciation for the year	5,632	10,882	377	139	17,030
Transfers	—	(2,866)	(273)	—	(3,139)
Disposals	(2,421)	(5,658)	(6)	—	(8,085)
Effect of movements in exchange rates	(119)	(26)	(2)	1	(146)
Balance at December 31, 2021	12,972	29,428	2,096	208	44,704
Carrying amount at December 31, 2021	**21,011**	**24,052**	**1,117**	**302**	**46,482**

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

8. Intangible Assets and Goodwill

	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2021	100,670	29,319	64,973	194,962	50,527
Additions through business combinations	10,662	—	394	11,056	669
Additions	—	649	130	779	—
Disposals	(620)	(836)	(1,125)	(2,581)	—
Effect of movements in exchange rates	5,418	1,261	2,953	9,632	3,496
Balance at December 31, 2022	116,130	30,393	67,325	213,848	54,692
Amortization:					
Balance at December 31, 2021	83,975	24,737	53,099	161,811	—
Amortization for the year	6,524	2,829	6,824	16,177	—
Disposals	(620)	(836)	(1,125)	(2,581)	—
Effect of movements in exchange rates	4,210	1,095	2,585	7,890	—
Balance at December 31, 2022	94,089	27,825	61,383	183,297	—
Carrying amount at December 31, 2022	**22,041**	**2,568**	**5,942**	**30,551**	**54,692**

	Customer relationships	Software	Patents and other intangibles	Total intangibles	Goodwill
Cost:					
Balance at December 31, 2020	100,964	28,099	64,921	193,984	50,742
Additions	—	1,283	254	1,537	—
Effect of movements in exchange rates	(294)	(63)	(202)	(559)	(215)
Balance at December 31, 2021	100,670	29,319	64,973	194,962	50,527
Amortization:					
Balance at December 31, 2020	78,796	21,944	46,331	147,071	—
Amortization for the year	5,365	2,817	6,835	15,017	—
Effect of movements in exchange rates	(186)	(24)	(67)	(277)	—
Balance at December 31, 2021	83,975	24,737	53,099	161,811	—
Carrying amount at December 31, 2021	**16,695**	**4,582**	**11,874**	**33,151**	**50,527**

Impairment testing for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the Company's CGUs, which represent the lowest level within the Company at which the goodwill is monitored. Goodwill is allocated to the Company's US CGU.

The Company's impairment analysis as of December 31, 2022, indicated that the recoverable amount of the net assets for the US Operations CGU exceeded its respective carrying value and, therefore, no impairment was recorded. The recoverable amount of the CGU was based on its value in use and the key assumptions for the value in use calculations were the expected growth rates in future cash flows and the discount rates. At December 31, 2022 an estimated risk adjusted, pre-tax discount rate of 15.5% (2021 - 13.8%) was used. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from 7% in 2023 to 1% in later years for the US Operations CGU. The Company has used a 2.0% terminal growth rate (2021 - 2.0%). Future cash flows are based on various judgments and estimates including actual performance of the business, management's estimates of future performance, and indicators of future industry activity levels.

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

9. Other Assets

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

	As at	
	December 31, 2022	December 31, 2021
Fixed income securities, with maturities due:		
Less than 1 year	**573**	5,174
1-5 years	**2,704**	6,565
Greater than 5 years	**582**	1,600
	3,859	13,339
Cash and cash equivalents	**4,711**	1,833
Equities	**1,544**	3,667
Other assets	**10,114**	18,839

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

Certain of these investments in the amount of $1,841 (December 31, 2021 - $1,723) have been pledged as collateral for letters of credit by the banker of the Company's captive insurance company in favor of the underwriting companies.

10. Long-Term Debt

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

	As at	
	December 31, 2022	December 31, 2021
Senior Facility	**209,276**	110,725
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	**287,954**	287,954
	497,230	398,679
Less: unamortized debt issue costs	**(5,748)**	(3,495)
Long-term debt	**491,482**	395,184

Senior Facility

During the year ended December 31, 2022, the Company amended its syndicated senior facility (the "Senior Facility"), adding an aggregate of approximately C$ equivalent $190,000 in available capacity, for a total Senior Facility size of approximately C$ equivalent $425,000 (December 31, 2021 - C$ equivalent $232,500). Other terms and conditions from the amendment remain materially consistent with those of the previous Senior Facility. As at December 31, 2022, the Senior Facility is comprised of a Canadian facility of $270,000 (December 31, 2021 - $145,000) and a US facility of US$120,000 (December 31, 2021 – US$70,000). 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.

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

As at December 31, 2022, the Company had a net draw of $208,512 on the Senior Facility (December 31, 2021 - net draw of $110,089), with capitalized transaction costs of $764 (December 31, 2021 - $636). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

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

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

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

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

- Net Senior Debt is defined as Total Net Debt, as defined below, minus the principal amount owing on the Company's Senior Notes, any permitted vendor take-back debt, and all cash and cash equivalents.
- EBITDA is defined as net income before interest, taxes, depreciation and amortization, gains and losses on disposal of assets, amortization of capitalized deferred financing costs, goodwill impairment, unrealized foreign exchange gains and losses, unrealized derivative gains and losses, stock-based compensation, and other gains and losses not considered reflective of underlying operations. EBITDA attributable to businesses acquired in the period are permitted to be added to EBITDA. EBITDA for 2021 includes all amounts recognized on account of wage and rent subsidy programs in connection with the COVID-19 pandemic, including the CEWS program and CERS program, provided that such amounts do not exceed the costs in which they are meant to offset, or are subject to any repayment obligation.
- Total Net Debt is defined as all obligations, liabilities, and indebtedness excluding future income tax liabilities and deferred tax credits, office leases, other leases characterized as an operating lease, and accrued interest not yet due and payable. Total Net Debt is also reduced by any unencumbered cash and securities on deposit or invested with any of the members of the Company's banking syndicate.

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

The covenant calculations as at December 31, 2022 and December 31, 2021, are as follows:

	As at	
	December 31, 2022	December 31, 2021
Net Senior Debt	**266,120**	138,438
EBITDA for the four quarters ended	**231,265**	145,687
Ratio	**1.151**	0.950
Maximum	**2.500**	2.500
EBITDA for the four quarters ended	**231,265**	145,687
Interest Expense for the four quarters ended	**28,062**	20,578
Ratio	**8.241**	7.080
Minimum	**2.500**	2.500

Senior Notes
As at December 31, 2022, the Company had $287,954 of remaining outstanding principal on its Senior Notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable semi-annually on April 21 and October 21. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2020. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

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

As at December 31, 2022, the Company was in compliance with the terms and covenants of its lending agreements. For the year ended December 31, 2022, the Company recorded $31,514 (2021 - $22,709) in interest expense related to its long-term debt and lease balances, including the amortization of debt issue costs.

Scheduled principal payments on the Company's long-term debt at December 31, 2022, are as follows:

2023	—
2024	497,230
2025	—
2026	—
2027 and thereafter	—
	497,230

11. Leases

The Company incurs lease payments under a number of lease arrangements for which the underlying leased assets secure the lease obligations. Leases are entered into and exited in coordination with specific business requirements, which includes the assessment of the appropriate durations for the related leased assets. The Company's leases are for terms ranging from January 2023 through May 2033 with a weighted average interest rate of 5.08% (2021 - 5.11%).

As at December 31, 2021	**42,021**
Additions through business combinations	89
Additions	36,176
Interest expense	2,574
Lease payments	(23,271)
Effects of movements in exchange rates	2,056
As at December 31, 2022	**59,645**
Current portion of lease obligation	**23,231**
Long-term portion of lease obligation	**36,414**

Future minimum lease payments outstanding under the Company's lease obligations at December 31, 2022 are as follows:

Less than 1 year	25,534
1-5 years	34,020
5+ years	6,478
Total lease payments	**66,032**
Amount representing implicit interest	(6,387)
Lease obligations	**59,645**

Payments recognized in the financial statements relating to short-term leases, variable lease payments, and leases of low-value assets for the year ended December 31, 2022 were $3,739 (2021 - $3,656). The Company's short-term leases, variable lease payments, and leases of low-value assets consist of leases of information technology, office equipment, and short-term facility rentals.

12. Cost of Sales

Included in cost of sales for the year ended December 31, 2022, is depreciation charged on property and equipment and ROU assets of $50,702 (2021 - $45,924) and employee compensation and benefits of $224,125 (2021 - $163,311). Included in Cost of Sales for the year ended December 31, 2021 is a gain of $4,444 on the sale and leaseback of specific real estate assets for proceeds of $8,100.

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

13. General and Administrative Expenses

Included in general and administrative expenses for the year ended December 31, 2022, is depreciation charged on property and equipment and ROU assets, and amortization charged on intangible assets of $23,782 (2021 – $22,054), stock-based compensation of $15,552 (2021 – $13,637), and employee compensation and benefits of $108,335 (2021 – $89,974). For the year ended December 31, 2021, included in general and administrative expenses were management transition costs of $4,829.

14. Finance Costs

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

	Year Ended December 31,	
	2022	2021
Interest on debt, net of interest income	**29,100**	21,197
Amortization of debt issue costs and premium	**2,012**	1,350
Foreign exchange loss	**10,426**	667
Financial derivative (gain) loss	**(2,312)**	181
Gain on repurchase of senior unsecured notes	—	(12)
Other finance costs	**342**	(994)
Finance costs	**39,568**	22,389

15. Income Taxes

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

	Year Ended December 31,	
	2022	2021
Current income tax expense		
Current year income tax expense	**7,479**	4,704
Prior year income tax expense adjustment	**(542)**	(422)
Current income tax expense	**6,937**	4,282
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**23,970**	(2,316)
Changes in tax rates [(1)]	**1,222**	774
Prior year income tax expense adjustment	**(593)**	(293)
Deferred income tax expense (recovery)	**24,599**	(1,835)
Income tax expense	**31,536**	2,447

[1]*The changes in tax rates is due to the impacts of changes to state tax apportionment and provincial allocation of taxable income in the US and Canada.*

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

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

	Year Ended December 31,	
	2022	2021
Income before taxes	**126,754**	52,331
Combined Canadian statutory rate	**23.97 %**	24.16 %
Provision for income taxes computed at the Canadian statutory rate	**30,383**	12,643
Effects on taxes resulting from:		
Non-deductible expenses	**2,117**	572
Stock-based compensation	**2,745**	2,681
Deductions for tax in excess of accounting, net	**(11,621)**	(2,278)
Adjustment of prior year taxes	**(607)**	(715)
Non-taxable capital gain (loss)	**709**	(733)
Income tax in jurisdictions with different tax rates	**2,169**	1,750
Foreign exchange (loss) gain	**(258)**	23
Change in unrecognized deferred income tax asset	**4,677**	(12,270)
Change in statutory rate	**1,222**	774
Income tax expense	**31,536**	2,447

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

	As at	
	December 31, 2022	December 31, 2021
Property and equipment	**(37,662)**	(32,446)
Goodwill and intangible assets	**31,023**	35,140
Financing costs and other tax credits	**(393)**	(625)
Other temporary differences	**28,837**	13,537
Non-capital losses	**30,059**	53,085
Capital losses	**1,364**	1,211
Unrecognized tax benefit, net	**(18,732)**	(13,340)
Net deferred income tax asset	**34,496**	56,562
Deferred income tax asset	**36,335**	58,646
Deferred income tax liability	**(1,839)**	(2,084)

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

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

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

	Year Ended December 31,	
	2022	2021
Deferred income tax liabilities:		
Charged (credited) to earnings	**245**	238
	245	238
Deferred income tax assets:		
Charged (credited) to earnings	**(24,844)**	1,596
Charged (credited) to equity	**2,533**	(374)
	(22,311)	1,222
Net movement	**(22,066)**	1,460

No deferred tax liability has been recognized as at December 31, 2022 (2021 - $nil) on temporary differences associated with investments in subsidiaries where the Company can control the timing of the reversal of the temporary difference and the reversal is not probable in the foreseeable future.

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

	As at December 31, 2022	Expiration Date
Canada:		
Non-capital losses	**37,211**	2031-2042
Net capital losses	**11,388**	Indefinite
United States:		
Non-capital losses	**86,878**	Indefinite
Luxembourg:		
Operating losses	**1,308**	2034-2039

As at December 31, 2022, there are unrecognized deferred income tax assets relating to capital and non-capital losses of $5,939 (2021 - $2,653), goodwill of $7,088 (2021 - $11,162), other financing costs of $6,222 (2021 - $nil) and investment tax credits of $517 (2021 - $587). These have not been recognized due to the uncertainty over recoverability of these respective deferred tax assets. Deferred tax assets are recognized only to the extent it is considered probable that they are recoverable based on estimated future earnings

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

16. Share Capital

a) Authorized

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

b) Issued and outstanding

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

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**253,830,896**	**658,614**	258,264,857	663,275
Issued pursuant to stock-based compensation	**2,747,074**	**—**	5,587,084	—
Contributed surplus related to stock-based compensation	**—**	**5,292**	—	11,402
Issued pursuant to stock settled director fee	**69,212**	**156**	63,632	106
Common shares repurchased and canceled through NCIB	**(2,131,500)**	**(5,242)**	(10,084,677)	(16,169)
Balance, end of year	**254,515,682**	**658,820**	253,830,896	658,614

Normal Course Issuer Bid ("NCIB")

On July 14, 2022, the Company announced the renewal of its previous NCIB, which ended on July 20, 2022, to repurchase for cancellation up to 14,339,478 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 presented below:

	Renewed NCIB July 21, 2022 to December 31, 2022	Year Ended December 31, 2022	Since Inception July 17, 2018 to December 31, 2022
Common shares repurchased and canceled through NCIB	1,988,500	2,131,500	32,258,357
Cash outlay	4,952	5,242	65,339
Average price per share	$2.49	$2.46	$2.03

c) Net income per share

In calculating the basic and diluted net income per share for the year ended December 31, 2022 and 2021, the weighted average number of shares used in the calculation is shown in the table below:

	Year Ended December 31,	
	2022	2021
Net income	**95,218**	49,884
Weighted average number of shares outstanding:		
Basic shares outstanding	**255,223,348**	255,269,304
Effect of dilutive shares	**6,344,618**	8,108,950
Diluted shares outstanding	**261,567,966**	263,378,254
Net income per share - basic	**$0.37**	$0.20
Net income per share - diluted	**$0.36**	$0.19

Excluded from the calculation of dilutive shares for the year ended December 31, 2022 are 1,182,062 (2021 - 4,268,766) of Share Rights that are considered anti-dilutive.

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

17. Stock-Based Compensation

For the year ended December 31, 2022, stock-based compensation expense of $15,552 (2021 – $13,637) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans. As at December 31, 2022, a total of 12,725,784 common shares were reserved for issuance under the Company's Restricted Share Unit Plan and Stock Settled Director Fee Program, of which 6,803,421 common shares remained available for grant.

a) Restricted Share Unit ("RSU") Plan

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

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

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Restricted Share Units	**Average Price**	Restricted Share Units	Average Price
Balance, beginning of year	**6,604,022**	**$1.62**	8,432,088	$1.77
Granted during the year	**1,889,238**	**2.65**	4,233,172	1.92
Reinvested during the year	**182,433**	**1.79**	61,997	1.59
Vested during the year	**(2,747,074)**	**1.92**	(5,587,084)	2.04
Forfeited during the year	**(6,256)**	**2.31**	(536,151)	2.00
Balance, end of year	**5,922,363**	**$1.83**	6,604,022	$1.62

The stock-based compensation costs for RSUs granted are based on the five day volume weighted average share price at the date of grant. The amount of compensation expense recorded for the year ended December 31, 2022, was reduced by an estimated weighted average forfeiture rate of 0.81% (2021 - 0.24%) per year at the date of grant.

b) Phantom Share Unit ("PSU") Plan

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

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	Phantom Share Units	Phantom Share Units
Balance, beginning of year	**5,916,448**	4,726,795
Granted during the year	**2,525,894**	2,862,189
Reinvested during the year	**155,103**	45,083
Vested during the year	**(2,534,685)**	(1,525,101)
Forfeited during the year	**(201,761)**	(192,518)
Balance, end of year	**5,860,999**	5,916,448

Included in the stock-based compensation expense for the year ended December 31, 2022 is an expense of $9,213 (2021 - $6,468) relating to the Company's PSU Plan. The amount of compensation expense recorded for the year ended December 31, 2022, was reduced by an estimated weighted average forfeiture rate of 2.71% (2021- 4.16%) per year at the date of grant. As at December 31, 2022, $6,514 (2021 - $3,198) was included in accounts payable and accrued liabilities and $2,065 (2021 - $2,187) was included in other long-term liabilities for outstanding PSUs.

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

c) Share Rights Incentive Plan ("SRIP")

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

A summary of changes under the SRIP is presented below:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
	Share Rights	**Average Exercise Price**	Share Rights	Average Exercise Price
Balance, beginning of year	**2,378,400**	**$6.02**	5,344,400	$5.17
Expired during the year	**(2,323,800)**	**6.02**	(2,795,000)	4.43
Forfeited during the year	**(39,600)**	**6.05**	(171,000)	5.32
Balance, end of year	**15,000**	**$6.29**	2,378,400	$6.02
Exercisable Share Rights, end of year	**15,000**	**$6.29**	2,378,400	$6.02

As at December 31, 2022, awards outstanding under the Company's SRIP have a remaining term of 0.03 years.

18. Dividends

The Company declared dividends to holders of common shares for the year ended December 31, 2022, as follows:

	Dividend Record Date	**Dividend Payment Date**	**Per Common Share**	**Total**
March 2022	Mar 31	Apr 15	$0.016	**4,078**
June 2022	Jun 30	Jul 15	$0.016	**4,099**
September 2022	Sep 30	Oct 14	$0.016	**4,092**
December 2022	Dec 30	Jan 13	$0.020	**5,090**
Total dividends declared			$0.068	**17,359**

19. Commitments

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

Less than 1 year	15,528
1-5 years	23
5+ years	—
Total	**15,551**

Payments denominated in foreign currencies have been translated using the December 31, 2022 exchange rate.

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

20. Financial Instruments and Risk Management

a) Financial instrument measurement and classification

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

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

The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on December 31, 2022. At December 31, 2022, the estimated fair value of the Senior Notes was $289,206 (December 31, 2021 - $302,650) and is based on level 2 inputs as the inputs are observable through correlation with market data.

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

	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at December 31, 2022					
Financial derivative asset	2,213	2,213	—	2,213	—
Other assets	10,114	10,114	10,114	—	—
	12,327	12,327	10,114	2,213	—
As at December 31, 2021					
Financial derivative asset	388	388	—	388	—
Other assets	18,839	18,839	18,839	—	—
	19,227	19,227	18,839	388	—

b) Credit risk

Credit risk reflects the risk of loss if counterparties do not fulfill their contractual obligations to the Company. The Company manages credit risk by assessing the creditworthiness of its customers on an ongoing basis and continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable, to assess collectability. Accounts receivable are primarily comprised of balances from customers operating primarily in the oil and gas industry, whose revenues may be affected by fluctuations in oil and natural gas prices. Collection of these receivables could be influenced by economic factors affecting this industry. The carrying value of trade receivables reflects management's assessment of the associated risk. The Company has trade and other receivables as follows:

	As at	
	December 31, 2022	December 31, 2021
Trade receivables	**386,025**	231,455
Allowance for doubtful accounts	**(3,269)**	(2,786)
Total trade receivables	**382,756**	228,669
Accrued revenue	**92,113**	74,746
Other receivables	**4,491**	5,421
Total accounts receivables	**479,360**	308,836

An analysis of accounts receivable is as follows:

	As at	
	December 31, 2022	December 31, 2021
Less than 30 days	**174,647**	124,493
31-60 days	**146,805**	78,288
61-90 days	**40,595**	21,246
Greater than 90 days	**23,978**	7,428
Total past due	**386,025**	231,455

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

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

	As at	
	December 31, 2022	December 31, 2021
Balance, beginning of year	**2,786**	3,783
Additional allowance	**1,316**	699
Amounts collected	**(786)**	(980)
Amounts used	**(197)**	(711)
Effect of movements in exchange rates	**150**	(5)
Balance, end of year	**3,269**	2,786

c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in prevailing market interest rates. The Company is exposed to interest rate risk as result of funds borrowed at floating interest rates. The Company manages this risk by monitoring interest rate trends and forecasted economic conditions. As of December 31, 2022, the Company had not entered into any interest rate derivatives to manage its exposure to fluctuations in interest rates.

A 50 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower, and all other variables were held constant, the Company's net income would be approximately $1,131 lower/higher for the respective year ended December 31, 2022 (2021 - $204 lower/higher).

d) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's foreign currency risk arises primarily from its working capital balances denominated in foreign currencies and on the investment in its foreign operations. The Company uses the USD as its functional currency in its US operations and in its other foreign jurisdictions. The Company manages foreign currency risk by monitoring exchange rate trends and forecasted economic conditions and, as appropriate, through the use of financial derivatives. A 1% increase or decrease is used when reporting foreign currency risk internally and represents management's assessment of the reasonable change in foreign exchange rates. Excluding financial currency derivatives, for the year ended December 31, 2022, a 1% increase/decrease in the Canadian dollar vis-à-vis the USD is estimated to increase/decrease net income by approximately $5,205 (2021 - decrease/increase $455).

At December 31, 2022, the Company had entered into the following foreign exchange USD forward purchase contracts to manage its exposure to upcoming USD denominated purchases pursuant to its Canadian and US operations:

Period	Notional Balance	Contract Type	Settlement	Average USDCAD Exchange Rate
January 2023	US$3,000	Deliverable Forward	Physical Purchase	$1.3461
February 2023	US$1,000	Deliverable Forward	Physical Purchase	$1.3292
Total	US$4,000			$1.3419

At December 31, 2022, the Company had $25,000 outstanding in USD forward purchase contracts at an exchange rate of $1.3650, maturing in January 2023, as a result of USDCAD swaps entered into in December 2022, which allowed the Company to utilize excess CAD cash flow to pay down previously outstanding USD draws on the Senior Facility.

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

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

The Company recognized the following relating to its foreign currency and equity derivative contracts in its consolidated statement of net income and comprehensive income:

	Year Ended December 31,	
	2022	2021
Realized financial derivative (gain) loss	**(486)**	1,680
Unrealized financial derivative gain	**(1,826)**	(1,499)
Financial derivative (gain) loss	**(2,312)**	181

At December 31, 2022, a favourable or unfavourable 1% change in the Canadian dollar vis-à-vis the US dollar is estimated to result in an increase or decrease, respectively, to net income of $383 (2021 - $89).

e) Equity price risk

The Company is exposed to equity price risk on its own share price in relation to its cash-settled PSU plan. The Company manages equity price risk, as appropriate, through the use of financial derivatives. The Company has entered into equity derivative contracts to mitigate its exposure to fluctuations in its share price by fixing the future settlement cost on a portion of the cash-settled PSU plan. During the year ended December 31, 2022, the Company recognized an unrealized derivative gain of $2,519 (2021 - $221) on equity derivative contracts due to the increase in the Company's share price at December 31, 2022.

The following table details the outstanding equity derivative contracts as of December 31, 2022:

Period	Price	Contract	Notional Principal	Number of Shares
June 2023	$2.3352	Swap	$2,549,427	1,091,720
July 2023	$2.1800	Swap	$2,850,081	1,307,388
July 2024	$2.1800	Swap	$2,850,078	1,307,387
July 2025	$2.2031	Swap	$1,386,415	629,302
Total	$2.2246		$9,636,001	4,335,797

A 10% increase or decrease is used when reporting equity price risk internally and represents management's assessment of the reasonably possible change in the Company's share price. At December 31, 2022, a favourable or unfavourable 10% change in the Company's share price is estimated to result in an increase or decrease, respectively, to net income of $1,197 (2021 – $468) as a result of unrealized gains (losses) on the equity derivative contracts.

f) Commodity price risk

Commodity price risk is the risk that the value of future cash flows will fluctuate as a result of changes in commodity prices. The Company is exposed both directly and indirectly to changes in underlying commodity prices, namely crude oil and natural gas. The prices of these commodities are significantly impacted by world economic events, which impact the supply and demand of crude oil and natural gas. The Company is primarily impacted by the effects of changes in the prices of crude oil and natural gas, which impact overall activity and the demand for the Company's products and services. In addition, through its operations, the Company purchases various minerals, chemicals, and oil-based products and is directly exposed to changes in the prices of these items. As of December 31, 2022, the Company had not entered into any commodity derivatives to manage its exposure to fluctuations in commodity prices.

g) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and describes the Company's ability to access cash. The Company requires sufficient cash resources to finance operations, fund capital expenditures, repay debt, fund shareholder dividends, and settle other liabilities of the Company as they come due. The Company manages liquidity risk by ensuring it has access to multiple sources of capital and through prudent management of its operational cash flows.

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

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2022:

	Payments Due By Period [1]					
	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	**Total**
Accounts payable and accrued liabilities	227,815	6,484	—	—	—	**234,299**
Dividends payable [2]	5,090	—	—	—	—	**5,090**
Income taxes payable	—	3,195	—	—	—	**3,195**
Deferred acquisition consideration	1,529	—	1,458	1,352	—	**4,339**
Senior Facility	—	—	209,276	—	—	**209,276**
Senior Notes [3]	—	—	287,954	—	—	**287,954**
Interest on Senior Notes	—	18,357	18,357	—	—	**36,714**
Lease obligations [4]	3,889	19,342	15,649	15,003	5,762	**59,645**
Commitments [5]	5,740	9,788	23	—	—	**15,551**
Other long-term liabilities	—	—	1,716	349	—	**2,065**
	244,063	57,166	534,433	16,704	5,762	**858,128**

[1]Payments denominated in foreign currencies have been translated using the December 31, 2022 exchange rate.
[2]Dividends declared as of December 31, 2022.
[3]The Senior Notes are due on October 21, 2024.
[4]Lease obligations reflect principal payments and excludes any associated interest portion.
[5]Commitments include amounts relating to short-term leases, leases of low-value assets, variable payments associated with long-term leases, inventory and capital commitments.

21. Capital Management

The overall capitalization of the Company is as follows:

	As at	
	December 31, 2022	December 31, 2021
Long-term debt [1]	**497,230**	398,679
Shareholders' equity	**609,049**	486,675
Total capitalization	**1,106,279**	885,354

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

For the year ended December 31, 2022, the Company considers capital to include shareholders' equity and long-term debt. The Company's objectives when managing capital are to permit prudent capital allocation to one or a combination of: investment in current operations, debt reduction, opportunistic share repurchases, dividends and acquisitions; as well as to maintain creditor and shareholder confidence.

The Company's overall capital management strategy remains unchanged in 2022. Management of the Company sets the amount of capital in proportion to risk, and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, CES may adjust the level of dividends paid to shareholders, issue or repurchase shares, repurchase or issue senior notes, dispose of assets, repay debt, or incur new debt.

In addition to monitoring the external financial covenants as detailed in Note 10, the Company manages capital by analyzing working capital levels, forecasted cash flows, strategic investments in key raw materials, planned investments in property and equipment, and general economic conditions. The Company is subject to certain financial covenants in its Senior Facility and Senior Notes indenture. As at December 31, 2022, the Company is in compliance with all of the financial requirements under all its lending agreements.

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

22. Supplemental Information

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

	Year Ended December 31,	
	2022	2021
(Increase) decrease in current assets		
Accounts receivable[(1)]	**(168,901)**	(149,354)
Inventory	**(154,368)**	(94,943)
Prepaid expenses and deposits	**12,632**	(19,228)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities[(2)]	**82,350**	75,877
Effects of movement in exchange rate	**27,961**	(532)
	(200,326)	(188,180)
Relating to:		
Operating activities	**(197,758)**	(191,659)
Investing activities	**(2,568)**	3,479

[1]Includes income taxes receivable.
[2]Includes income taxes payable and other long-term liabilities relating to the cash-settled PSU plan.

For the year ended December 31, 2022 and 2021, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Consolidated Statements of Cash Flows.

23. Geographical Information

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

	Revenue	
	Year Ended December 31,	
	2022	2021
United States	**1,276,944**	774,112
Canada	**645,375**	422,308
	1,922,319	1,196,420

	Long-Term Assets [(1)]	
	December 31, 2022	December 31, 2021
United States	**321,987**	282,644
Canada	**119,001**	127,107
	440,988	409,751

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

24. Related Parties

Included in general and administrative expenses is remuneration of the key management personnel of the Company, which includes directors and officers of the Company. For the year ended December 31, 2022, remuneration of $20,503 (2021 - $15,066) included $15,122 of salaries and cash-based compensation and $5,381 of stock-based compensation costs (2021 – $9,670 and $5,396, respectively). During the year ended December 31, 2021, the Company recorded general and administrative expenses of $4,829 in respect of one-time management transition costs.

During the year ended December 31, 2022, CES paid rent of $6 (2021 - $66) 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.

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

25. Significant Subsidiaries

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

	Country of	Ownership Interest %	
Subsidiary Name	Incorporation	**December 31, 2022**	December 31, 2021
Canadian Energy Services L.P.	Canada	**100%**	100%
AES Drilling Fluids Holdings, LLC	United States	**100%**	100%

26. Economic Dependence

For the year ended December 31, 2022, one customer accounted for 9% (2021 – 11%) of the Company's total revenue.

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Trading Symbol: CEU

OTC
Trading Symbol: CESDF

BOARD OF DIRECTORS
Philip J. Scherman[1]
Chairman

John M. Hooks[2,3]

Spencer D. Armour III[2,3]

Kyle D. Kitagawa[1,2]

Stella Cosby[3,4]

Ian Hardacre[1,4]

Joe Wright[1,4]

Kenneth E. Zinger

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

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President & Chief Executive Officer

Anthony M. Aulicino
Chief Financial Officer

Richard Baxter
President, US Drilling Fluids

Vernon J. Disney
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