



CES Energy
Solutions

Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2023 and 2022

CES Energy Solutions Corp.

Condensed Consolidated Statement of Financial Position (unaudited)

(stated in thousands of Canadian dollars)

	As at	
	March 31, 2023	December 31, 2022
ASSETS		
Current assets		
Accounts receivable	464,992	479,360
Financial derivative asset	2,013	2,213
Income taxes receivable	1,008	935
Inventory	436,616	428,144
Prepaid expenses and deposits	15,385	23,028
	920,014	933,680
Property and equipment (note 4)	287,515	283,432
Right of use assets (note 5)	65,262	62,199
Intangible assets	27,646	30,551
Deferred income tax asset	28,106	36,335
Other assets	10,437	10,114
Goodwill	54,648	54,692
	1,393,628	1,411,003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	229,931	234,299
Financial derivative liability	398	—
Dividends payable (note 9)	5,103	5,090
Income taxes payable	5,507	3,195
Current portion of deferred acquisition consideration	1,456	1,529
Current portion of lease obligations	24,953	23,231
	267,348	267,344
Long-term debt (note 6)	450,317	491,482
Lease obligations	38,155	36,414
Deferred acquisition consideration	1,351	2,810
Deferred income tax liability	1,783	1,839
Other long-term liabilities (note 8)	2,590	2,065
	761,544	801,954
Commitments (note 10)		
Shareholders' equity		
Common shares (note 7)	656,706	658,820
Contributed surplus	32,353	34,866
Deficit	(244,177)	(272,076)
Accumulated other comprehensive income	187,202	187,439
	632,084	609,049
	1,393,628	1,411,003

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

CES Energy Solutions Corp.

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

	Three Months Ended March 31,	
	2023	2022
Revenue	557,696	401,281
Cost of sales	441,383	326,591
Gross margin	116,313	74,690
General and administrative expenses	61,259	54,753
Operating profit	55,054	19,937
Finance costs	10,482	3,995
Other loss (income)	77	(75)
Income before taxes	44,495	16,017
Current income tax expense	3,277	1,259
Deferred income tax expense	8,216	4,508
Net income	33,002	10,250
Other comprehensive income (items that may be subsequently reclassified to profit and (loss)):		
Unrealized foreign exchange loss on translation of foreign operations	(485)	(8,521)
Change in fair value of other assets, net of tax	248	(995)
Comprehensive income	32,765	734
Net income per share (note 7)		
Basic	0.13	0.04
Diluted	0.13	0.04

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

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

	Three Months Ended March 31,	
	2023	2022
COMMON SHARES		
Balance, beginning of period	658,820	658,614
Issued pursuant to stock-based compensation (note 8)	2,057	1,682
Issued pursuant to stock settled director fees	43	32
Common shares repurchased and canceled through NCIB (note 7)	(4,214)	(290)
Balance, end of period	656,706	660,038
CONTRIBUTED SURPLUS		
Balance, beginning of period	34,866	33,819
Reclassified pursuant to stock-based compensation (note 7)	(4,238)	(1,682)
Stock-based compensation expense (note 8)	1,725	1,444
Balance, end of period	32,353	33,581
DEFICIT		
Balance, beginning of period	(272,076)	(349,935)
Net income	33,002	10,250
Dividends declared (note 9)	(5,103)	(4,078)
Balance, end of period	(244,177)	(343,763)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	187,439	144,177
Unrealized foreign exchange loss on translation of foreign operations	(485)	(8,521)
Change in fair value of other assets, net of tax	248	(995)
Balance, end of period	187,202	134,661
	632,084	484,517

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

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

	Three Months Ended March 31,	
	2023	2022
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income	33,002	10,250
Adjustments for:		
Depreciation and amortization	18,910	17,877
Stock-based compensation (note 8)	1,725	1,444
Other non-cash loss (income)	1,500	(438)
Deferred income tax expense	8,216	4,508
Gain on disposal of assets	(728)	(522)
Change in non-cash working capital (note 11)	10,613	(45,554)
	73,238	(12,435)
FINANCING ACTIVITIES:		
Repayment of lease obligations	(5,460)	(4,810)
(Decrease) increase in Senior Facility	(41,565)	39,210
Shareholder dividends	(5,090)	(4,061)
Settlement of restricted share units	(2,181)	—
Common shares repurchased and cancelled through NCIB (note 7)	(4,214)	(290)
	(58,510)	30,049
INVESTING ACTIVITIES:		
Investment in property and equipment	(14,277)	(10,056)
Investment in intangible assets	(86)	(448)
Investment in other assets	(99)	(178)
Deferred acquisition consideration	(1,518)	—
Business combination	—	(9,560)
Proceeds on disposal of assets	1,252	2,628
	(14,728)	(17,614)
CHANGE IN CASH		
Cash, beginning of period	—	—
Cash, end of period	—	—
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	4,379	1,238
Income taxes paid	962	452

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

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)
(stated in thousands of Canadian dollars, except for share and per share amounts)

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 condensed consolidated financial statements of the Company as at and for the three months ended March 31, 2023 and 2022 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 condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. These condensed consolidated financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2022. These condensed consolidated financial statements were authorized for issue by the Company’s Board of Directors on May 11, 2023.

3. Significant Accounting Policies, Estimates and Judgments

These condensed consolidated financial statements have been prepared following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended December 31, 2022 with the exception of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board (“IASB”), which were adopted effective January 1, 2023. These are as follows: IFRS 17, “*Insurance Contracts*”, as well as the amendments to IAS 12, “*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*”, IAS 1, “*Disclosure of Material Accounting Policy Information*”, and IAS 8, “*Definition of Accounting Estimates*”. The adoption of these standards and amendments has not had a material impact on the accounting policies, methods of computation or presentation applied by the Company. A description of accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual consolidated financial statements for the year ended December 31, 2022.

The preparation of the condensed 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. These condensed 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. Significant estimates and judgements used in the preparation of these condensed consolidated financial statements remained unchanged from those disclosed in the Company’s annual consolidated financial statements for the year ended December 31, 2022.

4. Property and Equipment

Balance at December 31, 2022	283,432
Additions	14,809
Transfers	23
Disposals, net of depreciation	(235)
Depreciation	(10,346)
Effect of movements in exchange rates	(168)
Balance at March 31, 2023	287,515

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

5. Right of Use Assets

Balance at December 31, 2022	62,199
Additions	9,063
Transfers	(43)
Disposals, net of depreciation	(271)
Depreciation	(5,662)
Effect of movements in exchange rates	(24)
Balance at March 31, 2023	65,262

6. Long-Term Debt

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

	As at	
	March 31, 2023	December 31, 2022
Senior Facility	167,345	209,276
Senior unsecured notes due Oct 21, 2024 bearing interest at 6.375% payable semi-annually ("Senior Notes")	287,954	287,954
	455,299	497,230
Less: unamortized debt issue costs	(4,982)	(5,748)
Long-term debt	450,317	491,482

Senior Facility

On April 25, 2023, the Company entered into an amended and restated credit agreement with respect to its syndicated and operating credit facilities (the "Amended Senior Facility"). The total size of the Amended Senior Facility is approximately C\$ equivalent \$700,000 consisting of an aggregated revolving facility of approximately C\$ equivalent \$450,000 and a Canadian Term Loan Facility of \$250,000. The Canadian Term Loan Facility is undrawn and can only be used to repay and redeem the 6.375% senior unsecured notes scheduled to mature in October of 2024. The Amended Senior Facility matures on April 25, 2026 and is secured by substantially all of the Company's assets and includes customary terms, conditions and covenants.

As at March 31, 2023, the Company has a syndicated senior facility (the "Senior Facility"), which is comprised of a Canadian facility of \$270,000 and US facility of US\$120,000. As at March 31, 2023, the Company had a net draw of \$166,668 on the Senior Facility (December 31, 2022 - net draw of \$208,512), with capitalized transaction costs of \$677 (December 31, 2022 - \$764). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

The covenant calculations as at March 31, 2023 and December 31, 2022, are as follows:

	As at	
	March 31, 2023	December 31, 2022
Net Senior Debt	202,091	266,120
EBITDA for the four quarters ended	263,627	231,265
Ratio	0.767	1.151
Maximum	2.500	2.500
EBITDA for the four quarters ended	263,627	231,265
Interest Expense for the four quarters ended	31,491	28,062
Ratio	8.371	8.241
Minimum	2.500	2.500

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

Senior Notes

As at March 31, 2023, 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.

As at March 31, 2023, the Company was in compliance with the terms and covenants of its lending agreements. For the three months ended March 31, 2023, the Company recorded \$10,248 (2022 - \$6,180) 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 March 31, 2023, are as follows:

2023 - 9 months	—
2024	455,299
2025	—
2026	—
2027 and thereafter	—
	<u>455,299</u>

As at April 25, 2023, the scheduled principal payments on the Company's long-term debt is comprised of \$287,954 due in 2024 in respect of the Senior Notes and \$167,345 due in 2026 in respect of the Amended Senior Facility.

7. 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:

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	254,515,682	658,820	253,830,896	658,614
Issued pursuant to stock-based compensation	2,189,217	(2,181)	2,747,074	—
Contributed surplus related to stock-based compensation	—	4,238	—	5,292
Issued pursuant to stock settled director fee	15,626	43	69,212	156
Common shares repurchased and canceled through NCIB	(1,591,000)	(4,214)	(2,131,500)	(5,242)
Balance, end of period	<u>255,129,525</u>	<u>656,706</u>	<u>254,515,682</u>	<u>658,820</u>

During the three months ended March 31, 2023, the Company elected to cash settle 779,890 RSUs that were vested and released during the quarter for an aggregate value of \$2,181.

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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 14,399,478 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 presented below:

	Renewed NCIB July 21, 2022 to March 31, 2023	Three Months Ended March 31, 2023	Since Inception July 17, 2018 to March 31, 2023
Common shares repurchased and canceled through NCIB	3,579,500	1,591,000	33,849,357
Cash outlay	9,166	4,214	69,553
Average price per share	\$2.56	\$2.65	\$2.05

Subsequent to March 31, 2023, the Company repurchased 1,600,200 additional shares at a weighted average price of \$2.73 for a total of \$4,361.

c) Net income per share

In calculating the basic and diluted net income per share for the three months ended March 31, 2023 and 2022, the weighted average number of shares used in the calculation is shown in the table below:

	Three Months Ended March 31,	
	2023	2022
Net income	33,002	10,250
Weighted average number of shares outstanding:		
Basic shares outstanding	254,882,825	254,024,573
Effect of dilutive shares	5,967,864	6,693,680
Diluted shares outstanding	260,850,689	260,718,253
Net income per share - basic	\$0.13	\$0.04
Net income per share - diluted	\$0.13	\$0.04

Excluded from the calculation of dilutive shares for the three months ended March 31, 2023 are 1,667 (2022 - 2,310,567) of Share Rights that are considered anti-dilutive.

8. Stock-Based Compensation

For the three months ended March 31, 2023, stock-based compensation expense of \$3,139 (2022 – \$4,643) was recorded in general and administrative expenses relating to the Company’s stock-based compensation plans. As at March 31, 2023, a total of 12,756,476 common shares were reserved for issuance under the Company’s Restricted Share Unit Plan and Stock Settled Director Fee Program, of which 6,784,213 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.

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)

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

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

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
	Restricted Share Units	Average Price	Restricted Share Units	Average Price
Balance, beginning of period	5,922,363	\$1.83	6,604,022	\$1.62
Granted during the period	2,974,495	2.85	1,889,238	2.65
Reinvested during the period	44,512	1.82	182,433	1.79
Vested during the period	(2,969,107)	1.43	(2,747,074)	1.92
Forfeited during the period	—	—	(6,256)	2.31
Balance, end of period	5,972,263	\$2.52	5,922,363	\$1.83

During the three months ended March 31, 2023, the Company elected to cash settle 779,890 RSUs that were vested and released during the quarter. 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 three months ended March 31, 2023, was reduced by an estimated weighted average forfeiture rate of 0.40% 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:

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
	Phantom Share Units		Phantom Share Units	
Balance, beginning of period	5,860,999		5,916,448	
Granted during the period	—		2,525,894	
Reinvested during the period	44,051		155,103	
Vested during the period	—		(2,534,685)	
Forfeited during the period	(42,579)		(201,761)	
Balance, end of period	5,862,471		5,860,999	

Included in the stock-based compensation expense for the three months ended March 31, 2023 is an expense of \$1,414 (2022 - \$3,199) relating to the Company's PSU Plan. As at March 31, 2023, \$7,402 (2022 - \$5,010) was included in accounts payable and accrued liabilities and \$2,590 (2022 - \$1,572) was included in other long-term liabilities for outstanding PSUs.

9. Dividends

The Company declared dividends to holders of common shares for the three months ended March 31, 2023, as follows:

	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
March 2023	Mar 31	Apr 14	\$0.020	5,103
Total dividends declared			\$0.020	5,103

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)
(stated in thousands of Canadian dollars, except for share and per share amounts)

10. 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	36,451
1-5 years	37
5+ years	—
Total	36,488

Payments denominated in foreign currencies have been translated using the March 31, 2023 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.

11. Supplemental Information

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

	Three Months Ended March 31,	
	2023	2022
(Increase) decrease in current assets		
Accounts receivable ⁽¹⁾	14,295	(52,603)
Inventory	(8,472)	(29,892)
Prepaid expenses and deposits	7,643	9,700
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities ⁽²⁾	(1,531)	29,915
Effects of movement in exchange rate	(670)	(4,215)
	11,265	(47,095)
Relating to:		
Operating activities	10,613	(45,554)
Investing activities	652	(1,541)

¹Includes income taxes receivable.

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

For the three months ended March 31, 2023 and 2022, changes in non-cash working capital relating to investing activities have been included in "Investment in property and equipment" on the Condensed Consolidated Statements of Cash Flows.

CES Energy Solutions Corp.

Notes to the Condensed Consolidated Financial Statements (unaudited)
(stated in thousands of Canadian dollars, except for share and per share amounts)

12. Geographical Information

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

	Revenue	
	Three Months Ended March 31,	
	2023	2022
United States	368,975	248,796
Canada	188,721	152,485
	557,696	401,281

	Long-Term Assets ⁽¹⁾	
	March 31, 2023	December 31, 2022
	United States	326,769
Canada	118,739	119,001
	445,508	440,988

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

CES Energy Solutions Corp.

Information

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
Trading Symbol: CEU

OTC

Trading Symbol: CESDF

BOARD OF DIRECTORS

Philip J. Scherman¹
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

¹Member of the Audit Committee

²Member of the Compensation Committee

³Member of the Corporate Governance and Nominating Committee

⁴Member of the Health, Safety and Environment Committee

EXECUTIVE OFFICERS

Kenneth E. Zinger
President & Chief Executive Officer

Anthony M. Aulicino
Chief Financial Officer

Richard Baxter
President, US Drilling Fluids

Vernon J. Disney
President, US Production Chemicals

CORPORATE SECRETARY

Matthew S. Bell

AUDITORS

Deloitte LLP
Chartered Professional Accountants, Calgary, AB

BANKERS

Scotiabank Canada, Calgary, AB

LEGAL COUNSEL

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

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