



CES Energy
Solutions

Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2018 and 2017

CES Energy Solutions Corp.

Condensed Consolidated Statements of Financial Position (unaudited)
(stated in thousands of Canadian dollars)

	As at	
	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Accounts receivable	283,606	285,976
Financial derivative asset (note 11)	1,597	-
Income taxes receivable	1,450	1,601
Inventory	194,497	177,558
Prepaid expenses and deposits	14,129	12,674
	495,279	477,809
Property and equipment (note 5)	300,655	283,985
Intangible assets	81,948	79,449
Deferred income tax asset	12,588	13,437
Other assets (note 11)	7,471	7,521
Goodwill	287,000	278,466
	1,184,941	1,140,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	114,612	112,718
Financial derivative liability (note 11)	-	512
Dividends payable (note 9)	671	670
Income taxes payable	1,550	471
Current portion of deferred acquisition consideration	370	4,550
Current portion of finance lease obligations	9,080	8,413
	126,283	127,334
Deferred acquisition consideration	150	520
Long-term debt (note 6)	409,629	402,421
Finance lease obligations	12,426	11,443
Deferred income tax liability	6,051	5,751
	554,539	547,469
Commitments (note 10)		
Shareholders' equity		
Common shares (note 7)	657,971	655,028
Contributed surplus	38,273	34,142
Deficit	(203,781)	(215,021)
Accumulated other comprehensive income	137,939	119,049
	630,402	593,198
	1,184,941	1,140,667

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,	
	2018	2017
Revenue	300,318	252,352
Cost of sales	229,713	192,567
Gross margin	70,605	59,785
General and administrative expenses	49,356	45,440
Operating profit	21,249	14,345
Finance costs	5,156	6,745
Other loss (income)	1	(4)
Income before taxes	16,092	7,604
Current income tax expense	1,321	2,561
Deferred income tax expense (recovery)	1,521	(2,735)
Net income	13,250	7,778
Other comprehensive income (items that may be subsequently reclassified to profit and loss):		
Unrealized foreign exchange gain (loss) on translation of foreign operations	18,935	(5,838)
Change in fair value of other assets, net of tax	(45)	23
Comprehensive income	32,140	1,963
Net income per share (note 7)		
Basic	0.05	0.03
Diluted	0.05	0.03

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,	
	2018	2017
COMMON SHARES		
Balance, beginning of period	655,028	622,665
Consideration for business combinations, net of issuance costs	-	12,796
Issued pursuant to stock-based compensation (note 8)	2,932	3,668
Issued pursuant to stock settled director fee	11	5
Balance, end of period	657,971	639,134
CONTRIBUTED SURPLUS		
Balance, beginning of period	34,142	26,116
Reclassified pursuant to stock-based compensation (note 7)	(1,968)	(2,792)
Stock-based compensation expense (note 8)	6,099	5,870
Balance, end of period	38,273	29,194
DEFICIT		
Balance, beginning of period	(215,021)	(243,280)
Net income	13,250	7,778
Dividends declared (note 9)	(2,010)	(1,983)
Balance, end of period	(203,781)	(237,485)
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	119,049	163,336
Unrealized foreign exchange gain (loss) on translation of foreign operations	18,935	(5,838)
Change in fair value of other assets, net of tax	(45)	23
Balance, end of period	137,939	157,521
	630,402	588,364

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,	
	2018	2017
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income	13,250	7,778
Adjustments for:		
Depreciation and amortization	15,141	16,399
Stock-based compensation (note 8)	6,099	5,870
Other non-cash income	(1,704)	(155)
Deferred income tax expense (recovery)	1,521	(2,735)
(Gain) loss on disposal of assets	(224)	370
Other loss (income)	1	(4)
Change in non-cash working capital (note 12)	(10,509)	(61,841)
	23,575	(34,318)
FINANCING ACTIVITIES:		
Repayment of finance leases	(2,228)	(2,058)
Increase in Senior Facility	6,838	43,973
Shareholder dividends	(2,011)	(1,977)
Issuance of shares, net of issuance costs	963	847
	3,562	40,785
INVESTING ACTIVITIES:		
Investment in property and equipment	(15,633)	(10,858)
Investment in intangible assets	(3,493)	(756)
Investment in other assets	(254)	-
Deferred acquisition consideration	(4,550)	-
Business combinations (note 4)	(4,376)	(10,050)
Proceeds on disposal of property and equipment	1,169	1,807
	(27,137)	(19,857)
Effect of foreign exchange on cash	-	-
CHANGE IN CASH	-	(13,390)
Cash, beginning of period	-	13,390
Cash, end of period	-	-
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	1,316	572
Income taxes paid	94	482

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

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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. These unaudited condensed consolidated financial statements of the Company as at and for the three months ended March 31, 2018 and 2017 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: Canadian Energy Services, AES Drilling Fluids, PureChem Services, StimWrx Energy Services, Sialco Materials Ltd, JACAM Chemicals, Catalyst Oilfield Services, Superior Weighting Products, and Clear Environmental Solutions.

2. Basis of Presentation

Statement of Compliance

These unaudited condensed consolidated financial statements have been prepared by management of the Company in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”, following the same accounting principles and methods of computation as outlined in the Company’s consolidated financial statements for the year ended December 31, 2017, with exception to the newly International Financial Reporting Standards (“IFRS”) effective January 1, 2018 (IFRS 9 – Financial Instruments, and IFRS 15 – Revenue from Contracts with Customers as discussed in Note 3 below). 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, 2017. These unaudited 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 unaudited 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, 2017. These unaudited condensed consolidated financial statements were authorized for issue by the Company’s Board of Directors on May 10, 2018.

3. Newly Adopted Accounting Standards

Revenue from Contracts with Customers

CES adopted IFRS 15, “*Revenue from Contracts with Customers*”, on January 1, 2018 using the modified retrospective method. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, no changes or adjustments to the Company’s comparative consolidated financial statements were required. There was no impact to the Company’s financial position, results of operations, or cash flows as a result of the adoption. CES recognizes revenue as the Company satisfies the performance obligations with its customers over time as they consume our oilfield chemical solutions. The Company has elected the practical expedient as permitted under IFRS 15 to measure progress towards satisfaction of its performance obligations based the value of the Company’s performance completed to date each reporting period. 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, based on the practical expedients permitted under IFRS 15. The nature and timing of revenue recognized during the period has not changed as compared to amounts presented in the annual consolidated financial statements for the year ended December 31, 2017 and prior. CES disaggregates revenue by the geographies in which we operate, being the US and Canada.

Financial Instruments

CES retrospectively adopted IFRS 9, “*Financial Instruments*”, on January 1, 2018. The adoption of the standard has not resulted in any changes to the Company’s financial statements and the classification and measurement of financial instruments has been conformed to IFRS 9. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of CES’ financial assets. The primary input in CES’ expected credit loss model on trade receivables is historical credit losses incurred in the US and Canada. The Company continues to monitor historical credit losses in the US and Canada each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

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

4. Business Combinations

Caradan Chemicals Inc.

On January 4, 2018, CES closed the acquisition of certain assets and liabilities of Caradan Chemicals Inc. (the “Caradan Acquisition”). Caradan was a private company based out of Nisku, Alberta, that provides production chemical solutions to oil and gas operators in central Alberta.

The Caradan Acquisition fills a gap in PureChem’s existing operations in central Alberta market coverage, while removing a competitor in this highly competitive region. Economies of scale will be obtained through the acquisition as Caradan will be fully integrated into PureChem’s operations and will provide the Company with opportunities to grow market share in Alberta, and enhance product offering to new and existing customers.

The aggregate purchase price of \$4,376 was paid in cash on the closing date. No other consideration or deferred consideration was exchanged.

The Company’s purchase price allocation for the Caradan Acquisition is as follows:

Allocation of purchase price \$000's

Property and equipment	1,051
Intangible assets	2,000
Goodwill	2,928
Total assets	5,979
Current liabilities	(1,603)
Total liabilities	(1,603)
Net assets acquired	4,376

The amount of profit or loss attributable to the acquisition from the date of acquisition to March 31, 2018, is not readily determinable. The goodwill recognized on the Caradan 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.

5. Property and Equipment

Property and equipment are comprised of the following balances:

<i>\$000's</i>	As at March 31, 2018			As at December 31, 2017		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Buildings & leasehold improvements	145,475	27,865	117,610	127,489	25,584	101,905
Trucks and trailers	76,696	43,789	32,907	71,727	40,583	31,144
Processing equipment	46,313	13,336	32,977	51,886	12,199	39,687
Vehicles	51,936	19,659	32,277	48,018	17,889	30,129
Field equipment	51,847	27,850	23,997	48,168	25,846	22,322
Tanks	43,076	13,330	29,746	40,904	12,380	28,524
Aircraft	22,742	7,750	14,992	22,587	7,419	15,168
Office & computer equipment	13,598	10,246	3,352	12,440	9,663	2,777
Land	12,797	-	12,797	12,329	-	12,329
	464,480	163,825	300,655	435,548	151,563	283,985

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6. Long-Term Debt

Senior Facility

As at March 31, 2018, the Company has a syndicated senior facility (the “Senior Facility”) which allows the Company to borrow up to \$165,000. The Senior Facility is comprised of a Canadian facility of \$125,000 and a US facility of US\$40,000. The Senior Facility matures on September 28, 2020, 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 0.45% to 1.00% or the Canadian Bankers’ Acceptance rate or the LIBOR rate plus an applicable pricing margin ranging from 1.45% to 2.00%. The Senior Facility has a standby fee ranging from 0.29% 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.

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.

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

- Net Senior Debt is defined as Total Net Funded 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.
- Total Net Funded Debt is defined as all funded obligations, liabilities, and indebtedness excluding deferred income tax liabilities and deferred tax credits, office leases, other leases characterized as operating leases, and accrued interest not yet due and payable. Total Net Funded 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 March 31, 2018 and December 31, 2017, are as follows:

\$000s	As at	
	March 31, 2018	December 31, 2017
Net Senior Funded Debt	140,171	130,376
EBITDA for the four quarters ended	157,245	152,414
Ratio	0.891	0.855
Maximum	2.500	2.500
EBITDA for the four quarters ended	157,245	152,414
Interest Expense for the four quarters ended	26,402	26,366
Ratio	5.956	5.781
Minimum	2.500	2.500

As of March 31, 2018, the maximum available draw on the amended Senior Facility was \$165,000 (December 31, 2017 - \$165,000). As at March 31, 2018 the Company had a net draw of \$116,303 (December 31, 2017 – \$109,255), with capitalized transaction costs of \$609 (December 31, 2017 – \$671). Transaction costs attributable to the Senior Facility are recorded as part of the Senior Facility and amortized to finance costs over the remaining term.

Senior Notes

At March 31, 2018, the Company had \$300,000 of outstanding principal on unsecured senior notes due October 21, 2024. The Senior Notes incur interest at a rate of 6.375% per annum and interest is payable on the Senior Notes semi-annually on April 21st and October 21st. The Senior Notes contain certain early redemption options, whereby the Company can choose to redeem all of

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or a portion of at various redemption prices, which include the principal amount plus any accrued and unpaid interest to the applicable redemption date. The Company has the ability to redeem all of its outstanding Senior Notes on or after October 21, 2020. The Senior Notes are unsecured, ranking equal in right of payment to all existing and future unsecured indebtedness, and have been guaranteed by the Company's current and future subsidiaries. Certain restrictions exist relating to items such as making restricted payments and incurring additional debt.

As at March 31, 2018, the Company was in compliance with the terms and covenants of its lending agreements.

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

<i>\$000s</i>	As at	
	March 31, 2018	December 31, 2017
Senior Facility	116,912	109,926
Senior Notes	300,000	300,000
	416,912	409,926
Less net unamortized debt issue costs	(7,283)	(7,505)
Long-term debt	409,629	402,421

For the three months ended March 31, 2018, the Company recorded \$6,335 (2017 – \$6,304) in interest expense related to its long-term debt and lease balances, including the amortization of capitalized transaction costs.

Scheduled principal payments on the Company's long-term debt for the next five years at March 31, 2018, are as follows:

<i>\$000s</i>	
2018	-
2019	-
2020	116,912
2021	-
2022	-
	116,912

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:

<i>Common Shares (\$000s, except number of shares)</i>	Three Months Ended		Year Ended	
	March 31, 2018		December 31, 2017	
	Number of		Number of	
	Shares	Amount	Shares	Amount
Balance, beginning of period	267,935,090	655,028	262,300,999	622,665
Issued pursuant to the Offering, net of share issue costs and taxes	-	-	-	-
Consideration for business combinations, net of share issue costs	-	-	1,783,745	12,796
Issued pursuant to stock-based compensation	487,298	964	3,846,450	4,712
Contributed surplus related to stock-based compensation	-	1,968	-	14,829
Issued pursuant to stock settled director fee	1,677	11	3,896	26
Balance, end of period	268,424,065	657,971	267,935,090	655,028

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c) Net income per share

In calculating the basic and diluted net income per share for the three months ended March 31, 2018 and 2017, the weighted average number of shares used in the calculation is shown in the table below:

\$000s, except share and per share amounts	Three Months Ended March 31,	
	2018	2017
Net income	13,250	7,778
Weighted average number of shares outstanding:		
Basic shares outstanding	268,178,300	264,169,358
Effect of dilutive shares	6,391,134	8,385,432
Diluted shares outstanding	274,569,434	272,554,790
Net income per share - basic	\$0.05	\$0.03
Net income per share - diluted	\$0.05	\$0.03

Excluded from the calculation of dilutive shares for the three months ended March 31, 2018, are 9,911,433 of Share Rights (2017 – 1,269,000 of Share Rights) that are considered anti-dilutive.

8. Stock-Based Compensation

As at March 31, 2018, a total of 26,842,407 common shares were reserved for issuance under the Company's Share Rights Incentive Plan, Restricted Share Unit Plan, and Stock Settled Director Fee Program, of which 6,124,920 common shares remained available for grant. For the three months ended March 31, 2018, stock compensation expense of \$6,099 (2017 – \$5,870) was recorded in general and administrative expenses relating to the Company's stock-based compensation plans.

a) Share Rights Incentive Plan ("SRIP")

CES' SRIP provides 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:

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	Share Rights	Average Exercise Price	Share Rights	Average Exercise Price
Balance, beginning of period	14,875,400	\$6.38	14,045,400	\$6.26
Granted during the period	60,000	6.07	3,281,400	5.99
Exercised during the period	(197,955)	4.87	(1,158,400)	4.07
Expired during the period	-	-	(114,000)	3.57
Forfeited during the period	(322,800)	7.27	(1,179,000)	6.03
Balance, end of period	14,414,645	\$6.37	14,875,400	\$6.38
Exercisable Share Rights, end of period	7,067,377	\$7.11	7,167,332	\$7.23

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The compensation costs for Share Rights granted during the three months ended March 31, 2018, were calculated using a Black-Scholes option pricing model using the following weighted average assumptions:

	Three Months Ended March 31, 2018
Risk-free interest rate	1.86%
Expected average life of Share Rights	3.2 years
Share Right term	5.0 years
Annual forfeiture rate	7.96%
Dividend yield	0.25%
Expected volatility	52.89%
Weighted average share price	\$6.07
Weighted average fair value per Share Right	\$2.28

The following table summarizes information about the outstanding grants under the Company's SRIP as at March 31, 2018:

Range of exercise prices	Share Rights Outstanding			Share Rights Exercisable	
	Share Rights	Weighted average exercise price	Weighted average term remaining in years	Share Rights	Weighted average exercise price
\$3.10 - \$4.83	3,485,045	4.18	3.37	1,141,045	3.97
\$4.84 - \$6.77	3,363,600	5.93	4.05	238,000	6.26
\$6.78 - \$7.07	4,412,000	6.92	2.14	2,891,666	6.92
\$7.08 - \$7.37	1,572,000	7.25	1.38	1,335,000	7.25
\$7.38 - \$10.98	1,582,000	9.76	1.42	1,461,666	9.96
	14,414,645	\$6.37	2.72	7,067,377	\$7.11

b) 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:

	Quarter Ended March 31, 2018		Year Ended December 31, 2017	
	Restricted Share Units	Average Price	Restricted Share Units	Average Price
Balance, beginning of period	4,706,493	\$5.98	4,858,585	\$6.19
Granted during the period	1,909,977	5.83	2,806,886	6.66
Reinvested during the period	6,184	5.99	23,798	5.61
Vested during the period	(289,343)	5.76	(2,688,050)	5.11
Forfeited during the period	(30,469)	5.45	(294,726)	5.24
Balance, end of period	6,302,842	\$5.95	4,706,493	\$5.98

The weighted average fair value of RSUs granted during the three months ended March 31, 2018, was \$5.83 per RSU (2017 - \$7.73). 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, 2018, was reduced by an estimated weighted average forfeiture rate of 5.27% per year at the date of grant.

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9. Dividends

The Company declared dividends to holders of common shares for the three months ended March 31, 2018, as follows:

<i>\$000s except per share amounts</i>	Dividend Record Date	Dividend Payment Date	Per Common Share	Total
January	Jan 31	Feb 15	\$0.0025	669
February	Feb 28	Mar 15	\$0.0025	670
March	Mar 30	Apr 13	\$0.0025	671
Total dividends declared during the year			\$0.0075	2,010

Subsequent to March 31, 2018, the Company declared dividends to holders of common shares in the amount of \$0.0025 per common share payable on May 15, 2018 for shareholders of record on April 30, 2018.

10. Commitments and Contingencies

The Company has commitments with payments due as follows:

<i>\$000s</i>	2018 - 9 months	2019	2020	2021	2022	Total
Office and facility rent, and other	6,814	6,822	4,518	3,071	1,381	22,606

Payments denominated in foreign currencies have been translated using the appropriate March 31, 2018 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. Financial Instruments and Risk Management

a) *Financial instrument measurement and classification*

The carrying values of accounts receivable, accounts payable and accrued 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 and finance lease obligations where interest is charged at a fixed rate is not significantly different than fair value. The Senior Notes are recorded at their amortized cost and fair value disclosure of the Senior Notes is based on their estimated trading price on March 31, 2018. The estimated fair value of the Senior Notes is based on level 2 inputs as the inputs are observable through correlation with market data.

CES classifies the fair value of these transactions 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.

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

The following table aggregates the Company's financial derivatives and investments available for sale in accordance with the above hierarchy:

<i>\$000s</i>	Carrying Value	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As at March 31, 2018					
Financial derivative asset	1,597	1,597	-	1,597	-
Financial derivative liability	-	-	-	-	-
Other assets	7,471	7,471	7,471	-	-
	9,068	9,068	7,471	1,597	-
As at December 31, 2017					
Financial derivative asset	-	-	-	-	-
Financial derivative liability	(512)	(512)	-	(512)	-
Other assets	7,521	7,521	7,521	-	-
	7,009	7,009	7,521	(512)	-

12. Supplemental Information

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

<i>\$000s</i>	Three Months Ended March 31,	
	2018	2017
(Increase) decrease in current assets		
Accounts receivable	6,800	(61,989)
Inventory	(13,520)	(24,661)
Prepaid expenses and deposits	(1,202)	2,460
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	(409)	21,814
	(8,331)	(62,376)
Relating to:		
Operating activities	(10,509)	(61,841)
Investing activities	2,178	(535)

For the three months ended March 31, 2018 and 2017, 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.

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)

13. Geographical Information

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

<i>\$000s</i>	Revenue	
	Three Months Ended March 31,	
	2018	2017
United States	179,462	141,693
Canada	120,856	110,659
	300,318	252,352

<i>\$000s</i>	Long-Term Assets ⁽¹⁾	
	March 31, 2018	December 31, 2017
Canada	216,233	205,429
United States	460,841	443,992
	677,074	649,421

⁽¹⁾ Includes: Property and equipment, 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

Kyle D. Kitagawa^{1,2,4}
Chairman

D. Michael G. Stewart^{1,4}

John M. Hooks^{2,4}

Rodney L. Carpenter³

Burton J. Ahrens^{1,4}

Colin D. Boyer^{2,3}

Philip J. Scherman¹

Stella Cosby³

Thomas J. Simons

¹Member of the Audit Committee

²Member of the Compensation Committee

³Member of the Health, Safety and Environment
Committee

⁴Member of the Corporate Governance and Nominating
Committee

OFFICERS

Thomas J. Simons
President & Chief Executive Officer

Craig F. Nieboer, CA
Chief Financial Officer

Kenneth E. Zinger
Canadian President & Chief Operating Officer

Kenneth D. Zandee
Vice President, Marketing

Jason D. Waugh
Vice President

Richard L. Baxter
President, AES Drilling Fluids, LLC

Vernon J. Disney
Chief Operating Officer, Catalyst Oilfield Services 2016, LLC
and JACAM Chemical Company 2013, LLC

James M. Pasieka
Corporate Secretary

AUDITORS

Deloitte LLP
Chartered Professional Accountants, Calgary, AB

BANKERS

Scotiabank Canada, Calgary, AB

SOLICITORS

McCarthy Tetrault, LLP, Calgary, AB
Crowe & Dunlevy, Oklahoma City, OK

REGISTRAR & TRANSFER AGENT

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

CORPORATE OFFICE

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