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.

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.

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:

	As at March 31, 2018			As at December 31, 2017		
$000's	**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

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:

	As at	
$000s	**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 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:

	As at	
$000s	**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:

$000s	
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:

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
Common Shares *($000s, except number of shares)*	**Number of Shares**	**Amount**	Number of 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

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:

	Three Months Ended March 31,	
$000s, except share and per share amounts	**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

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

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:

	Share Rights Outstanding			Share Rights Exercisable	
Range of exercise prices	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.

9. Dividends

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

$000s except per share amounts	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:

$000s	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.

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

$000s	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:

	Three Months Ended March 31,	
$000s	**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.

13. Geographical Information

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

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

	Long-Term Assets [1]	
$000s	**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. Carpenter[3]

Burton J. Ahrens[1,4]

Colin D. Boyer[2,3]

Philip J. Scherman[1]

Stella Cosby[3]

Thomas J. Simons

[1]Member of the Audit Committee
[2]Member of the Compensation Committee
[3]Member of the Health, Safety and Environment Committee
[4]Member 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
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Calgary, AB and Toronto, ON

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