ClearStream

ClearStream Announces Second Quarter 2018 Financial Results

Calgary – August 3, 2018 – ClearStream Energy Services Inc. ("ClearStream", TSX: CSM and CSM.DB.A) today announced its results for the three and six months ended June 30, 2018.

"EBITDAS" and "Adjusted EBITDAS" are not standard measures under IFRS. Please refer to the "Non-IFRS measures" section of this release for a description of these items and limitations of their use.

Second Quarter 2018 Highlights

- Revenue for the second quarter of 2018 increased by 16% compared to the second quarter of 2017; an increase in maintenance and turnaround revenue led to a rise in revenue for the maintenance and construction segment, which was partially offset by a decline in fabrication demand;
- Gross profit for the second quarter of 2018 was $6.7 million compared to $11.1 million; gross margins were 5.2% compared to 9.9% for the same periods in 2017;
- Gross margins declined on a year-over-year basis due to pricing declines for all service lines, combined with gross losses for ClearStream's fabrication service line. In addition, in the second quarter of 2018 compared to the second quarter of 2017 a larger proportion of revenue was earned using union based services, which is typically lower margin work due to the high competition associated with this type of service offering;
- Selling, general and administrative ("SG&A") costs for the three months ended June 30, 2018 were $4.5 million compared to $4.4 million for the same period in 2017. As a percentage of revenue, SG&A expenses decreased versus the comparative period in 2017 as the fixed cost structure remained relatively constant despite the increase in activity;
- ClearStream continued to protect and grow market share in the second quarter of 2018. Two maintenance contracts with expected total revenue of $90 million over the three terms of the contracts were renewed, plus expanded scope to include Environmental and Construction services during the quarter. ClearStream has not lost any significant contracts over the past two years, which demonstrates our continued focus on client service and operational execution;
- ClearStream successfully delivered nine major turnarounds across Canada with blue chip clients during the second quarter of 2018 by on-boarding and safely deploying over 2,250 staff and trades;
- ClearStream was formally recognized by a major client for safety and execution performance and received three safety awards during the 2nd Annual Canadian Safety Achievement Awards ceremony in June.

Overview of Financial Results

($ millions, except per share amounts)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Revenue	129.7	111.6	214.5	189.2
Gross profit	6.7	11.1	13.5	17.6
Selling, general & administrative expenses	(4.5)	(4.4)	(9.2)	(8.9)
Loss from continuing operations	(3.1)	(1.5)	(6.1)	(5.1)
EBITDAS	1.8	6.3	4.7	10.1
Adjusted EBITDAS	2.3	6.8	4.5	8.8
Loss per share from continuing operations, basic and diluted	(0.03)	(0.01)	(0.06)	(0.05)

Segment Review

MAINTENANCE AND CONSTRUCTION SERVICES

($ millions, except per share amounts)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Revenue	118.5	93.6	187.7	152.8
Gross profit	5.0	7.8	8.7	10.3
Selling, general & administrative expenses	(0.4)	(0.4)	(0.6)	(0.8)
Income from continuing operations	3.3	6.2	5.2	9.1

Revenues for the Maintenance and Construction Services segment were $118.5 million and $187.7 million for the three and six months ended June 30, 2018 compared to $93.6 million and $152.8 million in the prior year periods, an increase of 26.5% and 22.8%, respectively. An increase in maintenance and plant turnaround demand led to the increased revenue. Large plant turnarounds were completed in Saskatchewan and Newfoundland during the second quarter of 2018, which were incremental compared to 2017. This geographic expansion confirms the progress made on our strategy to diversify outside of Alberta and British Colombia. Maintenance demand has also increased due to a rise in oil and gas prices that has allowed our customers to increase maintenance spending in order to optimize their asset base

Gross profit was $5.0 million and $8.7 million for the three and six months ended June 30, 2018 compared with $7.8 million and $10.3 million for the same periods in the prior year. Gross margins for those same periods were 4.2% and 4.6% compared to 8.4% and 6.7% in 2017. Gross margins declined due to lower pricing and an unfavorable change in sales mix. Maintenance and construction services continue to be over-supplied relative to demand and, as a result, pricing levels declined compared to 2017. In addition, in the second quarter of 2018, we earned a larger proportion of revenue from work using union based employees, which is lower margin work due to the higher cost of labour associated with this type of work.

SG&A expenses for the Maintenance and Construction segment were $0.4 million and $0.6 million for the three and six months ended June 30, 2018, compared with $0.4 million and $0.8 million for the same periods in the prior year. SG&A expenses decreased over the comparative periods in 2017 due to reductions in headcount and discretionary spending.

WEAR, FABRICATION, AND TRANSPORTATION SERVICES

($ millions, except per share amounts)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Revenue	11.4	18.9	27.0	37.4
Gross profit	1.7	3.2	4.8	7.3
Selling, general & administrative expenses	(0.2)	(0.2)	(0.3)	(0.3)
Income from continuing operations	0.8	2.4	4.1	5.2

ClearStream sold all transportation assets on January 1, 2018. Total proceeds received on the sale were $3.4 million and a gain of $1.0 million was recognized on the sale. The following table shows the quarter-over-quarter results with the transportation division excluded to facilitate a more relevant comparative analysis:

($ millions, except per share amounts)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Revenue	11.4	15.3	27.0	31.1
Gross profit	1.7	3.2	4.8	7.2
Selling, general & administrative expenses	(0.2)	(0.1)	(0.3)	(0.3)
Adjusted EBITDAS	1.6	3.1	4.6	7.0

Excluding the Transportation division, revenues for this segment for the three and six months ended June 30, 2018 were $11.4 million and $27.0 million, compared to $15.3 million and $31.1 million for the same period in the prior year. The decline in revenue was largely due to a decrease in fabrication demand. Demand for fabrication services continues to be negatively impacted by a lack of new oil and gas project activity in Alberta.

Gross profit was $1.7 million and $4.8 million for the three and six months ended June 30, 2018, compared with $3.2 million and $7.2 million for the same periods in the prior year. Gross margins decreased to 15.3% and 18.1% compared to 20.8% and 23.2% in 2017 due to a decline in pricing combined with lower operating leverage on our fixed cost structure.

Excluding the Transportation division, SG&A expenses for the Fabrication and Wear Technology segment for the three and six months ended June 30, 2018, were up slightly compared to the prior periods due to an increase in people costs.

CORPORATE

($ millions, except per share amounts)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Selling, general & administrative expenses	4.0	3.8	8.3	7.8

SG&A expenses were $4.0 million and $8.3 million for the three and six months ended June 30, 2018 compared to $3.8 million and $7.8 million for the same periods in the prior year. SG&A costs increased slightly on a year-over-year basis due to higher employee costs.

Outlook

Demand and revenue are expected to increase in 2018 compared to 2017 due largely to a rise in commodity prices that has led to more cash flow for our customers. We continue to see an increase in spending on maintenance, asset integrity and asset optimization by our customers as they focus on increasing the production of existing assets. ClearStream is well positioned to capitalize on this spending increase as 95% of ClearStream's revenue is generated from maintenance and production enhancement services. For the third quarter of 2018, revenue is expected to be consistent with the third quarter of 2017 as the increase in maintenance demand is expected to be offset by lower fall turnaround activity for our existing customer base.

Despite increased demand for our services, gross margins for the remainder of 2018 are expected to remain lower than the same period in 2017 due to continued pressure on pricing and weakness within the fabrication service line. We have started to see more requests for increased scope of services within our industry in 2018 and expect this to continue as size and scale are required to provide greater efficiencies and cost savings to our clients. Consolidation of scope of services and higher utilization of the labour supply within the maintenance and turnaround segment must occur before pricing and margin improvements are realized by ClearStream.

ClearStream will continue to focus on managing costs, protecting market share, strong operational execution, and growing the business organically and through acquisitions. We believe that successful execution of this strategy will position ClearStream for growth and improved financial performance as market conditions continue to recover.

About ClearStream Energy Services Inc.

With a legacy of excellence and experience stretching back more than 50 years, ClearStream provides solutions to the Energy and Industrial markets including: Oil & Gas, Petrochemical, Mining, Power, Agriculture, Forestry, Infrastructure and Water Treatment. With offices strategically located across Canada and over 3,000 employees, we construct, transport and provide maintenance services that keep our clients moving forward. For more information about ClearStream, please visit www.ClearStreamEnergy.ca.

For further information, please contact:

Gary Summach
Chief Financial Officer
ClearStream Energy Services Inc.
gsummach@clearstreamenergy.ca

Dean MacDonald
Executive Chairman and Interim CEO
ClearStream Energy Services Inc.
dean@tuckamore.ca

Forward-looking information

This report contains certain forward-looking information. Certain information included in this report may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results and may include statements or information regarding the future plans or prospects of ClearStream and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of ClearStream. Without limitation, information regarding the future operating results and economic performance of ClearStream constitute forward-looking information. Such forward-looking information reflects management's current beliefs and is based on information currently available to management of ClearStream. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including risks related to investments, conditions of capital markets, economic conditions, commodity prices, dependence on key personnel, limited customer bases, interest rates, regulatory change, ability to meet working capital requirements and capital expenditures needs of the Company, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. In addition, in evaluating this information, investors should specifically consider various factors, including the risks outlined under "Risk Factors," in the company's 2017 Annual Information Form dated February 28, 2018, which may cause actual events or results to differ materially from any forward-looking statement. In formulating forward-looking information herein, management has assumed that business and economic conditions affecting ClearStream will continue substantially in the ordinary course, including without limitation with respect to general levels of economic activity, regulations, taxes and interest rates. Although the forward-looking information is based on what management of ClearStream considers to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect. This forward-looking information is made as of the date of this report, and ClearStream does not assume any obligation to update or revise it to reflect new events or circumstances except as required by law. Undue reliance should not be placed on forward-looking information. ClearStream is providing the forward-looking financial information set out in this report for the purpose of providing investors with some context for the outlook presented. Readers are cautioned that this information may not be appropriate for any other purpose.

Non-standard measures

The terms ''EBITDAS'' and "Adjusted EBITDAS" (collectively the ''Non-GAAP measures'') are financial measures used in this report that are not standard measures under IFRS. ClearStream's method of calculating Non-GAAP measures may differ from the methods used by other issuers. Therefore, ClearStream's Non-GAAP measures, as presented may not be comparable to similar measures presented by other issuers.

EBITDAS refers to net earnings determined in accordance with IFRS, before depreciation and amortization, interest expense, income tax expense (recovery) and stock based compensation. EBITDAS is used by management and the directors of ClearStream (the "Directors") as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDAS to monitor the performance of ClearStream's reportable segments and believes that in addition to net income or loss and cash provided by operating activities, EBITDAS is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures and income taxes. ClearStream has provided a reconciliation of income (loss) from continuing operations to EBITDAS in its consolidated financial statements and MD&A.

Adjusted EBITDAS refers to EBITDAS excluding income from equity investments, the gain on sale of assets held for sale, impairment of goodwill and intangible assets, restructuring costs, and gain on sale of property plant and equipment. ClearStream has used Adjusted EBITDAS as the basis for the analysis of its past operating financial performance. Adjusted EBITDAS is used by ClearStream and management believes it is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures, and income taxes. Adjusted EBITDAS is a measure that management believes facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors. ClearStream has provided a reconciliation of income (loss) from continuing operations to Adjusted EBITDAS in its MD&A.

Investors are cautioned that the Non-GAAP Measures are not alternatives to measures under IFRS and should not, on their own, be construed as an indicator of performance or cash flows, a measure of liquidity or as a measure of actual return on the shares. These Non-GAAP measures should only be used with reference to ClearStream's Interim Financial Statements and Annual Financial Statements available on SEDAR at www.sedar.com or www.clearstreamenergy.ca.

CLEARSTREAM ENERGY SERVICES INC.
Consolidated Balance Sheets
(In thousands of Canadian dollars)
(unaudited)

	June 30, 2018	December 31, 2017
Cash	$ 4,243	$ 4,649
Restricted cash	5,057	980
Accounts receivable	95,034	66,177
Inventories	5,206	4,304
Prepaid expenses and other	2,267	2,989
Earn-out assets	-	1,277
Assets held for sale	-	2,506
Total current assets	111,807	82,882
Property, plant and equipment, net	20,736	20,657
Goodwill and intangible assets	25,223	26,765
Earn-out assets	-	1,173
Long-term investments	679	575
Deferred financing costs	455	591
Total assets	**$ 158,900**	**$ 132,643**
Accounts payable and accrued liabilities	42,965	36,276
Deferred revenue	332	146
Current portion of obligations under finance leases	1,213	1,462
Current liabilities of assets held for sale	-	1,197
ABL facility	41,500	27,500
Senior secured debentures	-	171,988
Convertible secured debentures	-	24,999
Current portion of provision	1,205	1,196
Total current liabilities	87,215	264,764
Provision	4,087	4,582
Obligations under finance leases	3,198	2,185
Senior secured debentures	96,634	-
Convertible secured debentures	969	-
Total liabilities	192,104	271,531
Share capital	462,036	469,030
Preferred Shares	102,130	-
Contributed surplus	20,840	2,958
Deficit	(618,210)	(610,876)
Total shareholders' deficit	(33,204)	(138,888)
Total liabilities and shareholders' deficit	**$ 158,900**	**$ 132,643**

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Statements of Loss and Comprehensive Loss
(In thousands of Canadian dollars, except per share amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	$ 129,702	$ 111,559	$ 214,496	$ 189,248
Cost of revenue	(122,993)	(100,486)	(200,968)	(171,635)
Gross profit	6,709	11,073	13,528	17,613
Selling, general and administrative expenses	(4,494)	(4,395)	(9,169)	(8,923)
Share based compensation	(76)	(350)	(155)	(659)
Amortization of intangible assets	(804)	(864)	(1,561)	(1,727)
Depreciation	(1,146)	(1,358)	(2,307)	(2,589)
Income from equity investment	72	93	104	130
Interest expense	(2,716)	(5,186)	(6,464)	(10,218)
Gain (loss) on sale of assets held for sale	(275)	(515)	757	(392)
Restructuring costs	(24)	(167)	(84)	(444)
Other loss	(192)	-	(474)	-
Gain on sale of property, plant and equipment	13	161	65	2,078
Loss before taxes	(2,933)	(1,508)	(5,760)	(5,131)
Income tax expense - current	(164)	(2)	(325)	(2)
Loss from continuing operations	(3,097)	(1,510)	(6,085)	(5,133)
	-	-		
Loss from discontinued operations (net of taxes)	(113)	(1,887)	(300)	(2,257)
Net loss and comprehensive loss	$ (3,210)	$ (3,397)	$ (6,385)	$ (7,390)
Loss per share				
Basic & diluted:				
Continuing operations	$ (0.03)	$ (0.01)	$ (0.06)	$ (0.05)
Discontinued operations	$ (0.00)	$ (0.02)	$ (0.00)	$ (0.02)
Net loss	$ (0.03)	$ (0.03)	$ (0.06)	$ (0.07)

CLEARSTREAM ENERGY SERVICES INC.
Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

Six months ended June 30,	2018	2017
Operating activities:		
Net loss for the period	$ (6,385)	$ (7,390)
Loss from discontinued operations (net of income tax)	300	2,257
Items not affecting cash:		
Stock based compensation	155	514
Amortization of intangible assets	1,561	1,727
Depreciation	2,307	2,589
Income from equity investments	(104)	(130)
Accretion expense	174	402
Other loss	474	-
Onerous lease payments	(960)	-
Amortization of deferred financing costs	303	288
Gain on sale of assets held for sale	(757)	392
Gain on sale of property, plant and equipment	(65)	(2,078)
Changes in non-cash working capital	(23,234)	(28,951)
Cash used in discontinued operations	(300)	(925)
Total cash used in operating activities	$ (26,531)	$ (31,305)
Investing activities:		
Purchase of property, plant and equipment	(454)	(2,353)
Net proceeds on disposal of property, plant and equipment	228	2,960
Purchase of intangible assets	-	(57)
Proceeds on the disposition of businesses	4,625	-
Transaction costs	(1,060)	-
Total cash provided by investing activities	$ 3,339	$ 550
Financing activities:		
Increase in restricted cash	(4,077)	-
Increase in bank indebtedness	-	2,979
Proceeds from the issuance of preferred shares	19,000	-
Repayment of senior secured debentures	(2,340)	-
Refinancing fees	(3,677)	-
Advance on ABL facility	14,000	18,250
Repayment of obligations under finance leases	(1,212)	(1,977)
Changes in non-cash working capital	1,092	-
Total cash provided by financing activities	$ 22,786	$ 19,252
Decrease in cash	(406)	(11,503)
Cash, beginning of the period	4,649	11,503
Cash, end of period	$ 4,243	$ -