ClearStream Announces Third Quarter 2017 Financial Results

Calgary – November 3, 2017 – ClearStream Energy Services Inc. (“ClearStream”, TSX: CSM and CSM.DB.A) today announced its results for the three and nine months ended September 30, 2017.

“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.

Third Quarter 2017 Highlights

- Revenue for the third quarter of 2017 increased by $18.2 million or 27% compared to the third quarter of 2016;
- The year-over-year increase in revenue was driven by a recovery of activity from the Fort McMurray fires that impacted our operations in the third quarter of 2016, as well as increased maintenance and fabrication demand;
- Adjusted EBITDAS for the third quarter of 2017 decreased by $2.4 million or 58% compared to the same period 2016;
- The declined in adjusted EBITDAS was due to:
    - Losses recognized on two lump sum projects within the maintenance and construction division;
    - Fire-related delays at two separate client sites;
    - Pricing decreases for maintenance and wear technology services;
    - An increase in SG&A costs due largely to one-time legal and consulting expenses;
    - A prior year insurance recovery of $0.6 million that increased the prior year adjusted EBITDAS;
- ClearStream expanded its service offering during the third quarter of 2017 by launching an environmental services division. This division will focus on project lifecycle consulting for the land, environmental, regulatory, reclamation and remediation needs of our customers;

Overview of Financial Results

($ millions, except per share amounts)	**Q3 2017**	**Q3 2016**	**YTD 2017**	**YTD 2016**
Revenue	85.9	67.8	275.2	197.7
Gross profit	6.6	6.8	24.2	17.6
Selling, general & administrative expenses	(4.9)	(3.4)	(13.9)	(12.3)
Loss from continuing operations	(6.1)	(4.6)	(11.3)	(26.1)
EBITDAS	1.5	2.9	11.5	(2.7)
Adjusted EBITDAS	1.7	4.2	10.6	6.1
Loss per share from continuing operations, basic and diluted	(0.06)	(0.04)	(0.10)	(0.24)

Revenues for the three and nine months ended September 30, 2017 were $85.9 million and $275.2 million compared to $67.8 million and $197.7 million for the same periods in 2016, an increase of 27% and 39%.

Demand for ClearStream's services increased for both reportable segments due largely to increased maintenance and fabrication demand, and a recovery in demand in Fort McMurray caused by 2016 wildfires.

Gross profit for the three and nine months ended September 30, 2017 was $6.6 million and $24.2 million compared to $6.8 million and $17.6 million for the same periods in 2016. Gross margins declined on a year-over-year basis due to pricing decreases for maintenance and wear technology services combined with gross losses on two lump sum projects within the maintenance and construction division. These projects have been completed and no additional losses are expected in the fourth quarter of 2017.

Gross margins were also negatively impacted by fire-related delays at two separate client sites. Although the deferred work is expected to be completed in the fourth quarter of 2017, certain costs were incurred in preparation for this work, which increased direct cost of sales during the third quarter of 2017.

Selling, general and administrative ("SG&A") costs for the three and nine months ended September 30, 2017 were $4.9 million and $13.9 million compared to $3.4 million $12.3 million in 2016. SG&A expenses increased during the third quarter of 2017 due largely to an increase in legal and consulting costs. In addition, cost recoveries were recognized in the third quarter of 2016, which decreased the prior period SG&A expenses. As a percentage of revenue, SG&A costs have declined to 5.0% from 6.2% for the nine months ended September 30, 2017.

Segment Review

MAINTENANCE AND CONSTRUCTION SERVICES

($ millions, except per share amounts)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Revenue	66.7	57.1	219.5	161.8
Gross profit	3.8	5.4	14.1	12.3
Selling, general & administrative expenses	(0.2)	(0.2)	(0.9)	(1.1)
Income from continuing operations	2.9	4.6	13.1	9.3

Revenues for the Maintenance and Construction Services segment were $66.7 million and $219.5 million for the three and nine months ended September 30, 2017 compared to $57.1 and $161.8 for the same periods in the prior year, an increase of 16.7% and 35.6%. For the third quarter of 2017, revenues benefitted from an increase in maintenance demand and new work in Saskatchewan compared to the third quarter of 2016.

Gross profit was $3.8 million and $5.4 million for the three and nine months ended September 30, 2017 compared with $14.1 million and $12.3 million for the same periods in the prior year. Gross profit margins for those same periods were 5.8% and 6.4% compared to 9.4% and 7.6% in 2016. For the third quarter of 2017, gross profit margins declined due to pricing decreases for maintenance and wear technology services combined with losses on two lump sum projects within the maintenance and construction division. Gross margins were also negatively impacted by fire-related delays at two separate client sites. Although the deferred work is expected to be completed in the fourth quarter of 2017, certain costs were incurred in preparation for this work, which increased direct cost of sales during the third quarter of 2017.

WEAR, FABRICATION, AND TRANSPORATION SERVICES

($ millions, except per share amounts)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Revenue	20.0	11.1	57.3	37.2
Gross profit	2.8	1.4	10.1	5.3
Selling, general & administrative expenses	(0.2)	(0.1)	(0.5)	(0.5)
Income from continuing operations	1.9	0.4	7.6	2.2

Revenues for the Fabrication, Wear Technology and Transportation segment were $20.0 million and $57.3 million for the three and nine months ended September 30, 2017 compared to $11.1 million and $37.2 million in the prior year quarters, an increase of 81% and 54%, respectively. For the three months ended September 30, 2017, revenue increased due to a rise in both pipeline fabrication projects and demand for wear technology services. A recovery of activity in Fort McMurray also contributed to the increase in revenue as third quarter financial results in 2016 were negatively impacted by the Fort McMurray fires.

Gross profit was $2.8 million and $10.1 million for the three and nine months ended September 30, 2017 compared with $1.4 million and $5.3 million during the same periods of the prior year. Gross margins were 14.0% and 17.7% compared to 13.0% and 14.2% a year ago. Gross profit margins for the segment were relatively consistent on a year-over-year basis as a decrease in wear technology pricing was offset by increased leverage on our fixed cost structure.

CORPORATE

($ millions, except per share amounts)	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Selling, general & administrative expenses	4.6	3.0	12.4	10.8

Corporate SG&A expenses were $4.6 million and $12.4 million for the three and nine months ended September 30, 2017 compared to $3.0 million and $10.8 million for the same periods in the prior year. SG&A costs increased on a year-over-year basis due to higher legal, consulting and people costs, combined with cost recoveries recorded in third quarter of 2016.

Outlook

Demand for ClearStream services is expected to remain stable during the fourth quarter of 2017 and up relative to 2016. Demand continues to be driven by stable commodity prices as well as improved operational execution. Improvements to key operational processes including safety, quality and recruiting have contributed to increased revenue in 2017 relative to 2016 and we expect this trend to continue in the fourth quarter 2017.

Although demand is expected to remain stable and ahead of 2016, ClearStream’s areas of operations are expected to remain competitive for the remainder of 2017 and into 2018. With the lack of new oil and gas infrastructure projects in Canada, ClearStream and many of our competitors are focused on growing maintenance related business, which has more stable demand. As a result, the oil and gas maintenance industry is very competitive and ClearStream must continue to focus on cost control, customer retention, and process and efficiency improvements to stay ahead of the competition. ClearStream will also continue to focus on diversification efforts, as appropriate, to expand into new regions and provide services to customers outside of the oil and gas industry.

About ClearStream Energy Services Inc.

ClearStream is a fully integrated provider of upstream, midstream and refinery production services, which includes facility maintenance and turnarounds, pipeline wear technology, facilities construction, welding and fabrication, and transportation to the energy and other industries in Western Canada. 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 2016 Annual Information Form dated March 6, 2017, 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 Management Discussions and Analysis (“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)

As at	September 30, 2017	December 31, 2016
Cash	$ -	$ 11,503
Restricted cash	980	980
Accounts receivable (note 10)	74,954	46,928
Inventories	4,378	3,000
Prepaid expenses and other	2,179	2,060
Earn-out assets (note 3)	1,555	1,608
Total current assets	84,046	66,079
Property, plant and equipment, net (note 4)	22,774	24,745
Goodwill and intangible assets	35,557	38,088
Earn-out assets (note 3)	2,586	4,056
Long-term investments	489	579
Deferred financing costs (note 5)	863	1,295
Total assets	**$ 146,315**	**$ 134,842**
Bank indebtedness	$ 2,383	$ -
Accounts payable and accrued liabilities	38,495	26,848
Deferred revenue	149	167
Current portion of obligations under finance leases	2,766	3,902
Other liability (note 9)	1,969	4,985
Total current liabilities	45,762	35,902
ABL facility (note 5)	19,000	3,500
Obligations under finance leases	1,568	2,915
Senior secured debentures (note 5)	171,900	171,642
Convertible secured debentures (note 5)	24,764	24,397
Total liabilities	262,994	238,356
Shareholders' deficit	(116,679)	(103,514)
Total liabilities and shareholders' deficit	**$ 146,315**	**$ 134,842**

Note references are to the Company's interim financial statements for the three and nine months ending September 30, 2017, which are available on SEDAR at www.sedar.com

CLEARSTREAM ENERGY SERVICES INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	$ 85,927	$ 67,773	$ 275,175	$ 197,748
Cost of revenue	(79,292)	(60,949)	(250,927)	(180,143)
Gross profit	6,635	6,824	24,248	17,605
Selling, general and administrative expenses (note 6)	(4,929)	(3,356)	(13,852)	(12,312)
Share based compensation (note 8)	80	-	(579)	-
Amortization of intangible assets	(861)	(716)	(2,588)	(2,518)
Depreciation (note 4)	(1,338)	(1,533)	(3,927)	(4,667)
Income (loss) from equity investment	30	62	160	(93)
Interest expense	(5,470)	(5,239)	(15,688)	(16,184)
Gain (loss) on sale of assets held for sale	105	212	(287)	1,326
Restructuring costs	(383)	(344)	(827)	(344)
Impairment of goodwill and intangible assets	-	-	-	(8,700)
Other income	-	623	-	623
Gain (loss) on sale of property, plant and equipment	11	(1,155)	2,089	(822)
Loss before taxes	(6,120)	(4,622)	(11,251)	(26,086)
Income tax expense - current	-	(2)	(2)	(21)
Loss from continuing operations	(6,120)	(4,624)	(11,253)	(26,107)
	-			
Loss from discontinued operations (net of taxes) (note 2)	(50)	(715)	(2,307)	(6,765)
Net loss and comprehensive loss	$ (6,170)	$ (5,339)	$ (13,560)	$ (32,872)
Loss per share (note 7)				
Basic & diluted:				
Continuing operations	$ (0.06)	$ (0.04)	$ (0.10)	$ (0.24)
Discontinued operations	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.06)
Net loss	$ (0.06)	$ (0.05)	$ (0.12)	$ (0.30)

Note references are to the Company's interim financial statements for the three and nine months ended September 30, 2017, which are available on SEDAR at www.sedar.com

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

Nine months ended September 30,		2017		2016
Operating activities:				
Net loss for the period	$	(13,560)	$	(32,872)
Loss from discontinued operations (net of income tax)		2,307		6,765
Items not affecting cash:				
Share based compensation (note 8)		396		-
Amortization of intangible assets		2,588		2,518
Depreciation (note 4)		3,927		4,667
(Income) loss from equity investments		90		93
Accretion expense (note 5)		625		2,332
Amortization of deferred financing costs (note 5)		432		288
Impairment of goodwill and intangible assets		-		8,700
(Gain) loss on sale of assets held for sale		287		(1,326)
Gain on sale of property, plant and equipment		(2,089)		822
Changes in non-cash working capital		(17,913)		14,517
Advances to discontinued operations		-		(4,363)
Cash used in discontinued operations (note 2)		(4,070)		-
Total cash (used in) provided by operating activities	$	(26,980)	$	2,141
Investing activities:				
Purchase of property, plant and equipment (note 4)		(2,462)		(1,168)
Net proceeds on disposal of property, plant and equipment (note 4)		2,991		1,560
Purchase of intangible assets		(57)		(65)
Proceeds on the disposition of businesses (note 2)		-		14,800
Total cash provided by investing activities	$	472	$	15,127
Financing activities:				
Decrease in restricted cash		-		3,400
Proceeds from the issuance of the senior secured debentures		-		176,228
Proceeds from the issuance of the convertible secured debentures		-		35,000
Repayment of the senior credit facility		-		(58,735)
Repayment of the 8.00% secured debentures		-		(176,228)
Refinancing fees (ABL facility, senior and convertible secured debentures)		-		(10,216)
Increase in bank indebtedness		2,383		-
Advance on ABL facility		15,500		-
Repayment of obligations under finance leases		(2,878)		(4,143)
Total cash provided by (used in) financing activities	$	15,005	$	(34,694)
Decrease in cash		(11,503)		(17,426)
Cash, beginning of the period		11,503		24,409
Cash, end of period	$	-	$	6,983
Supplemental cash flow information:				
Interest paid		10,120		9,749
Supplemental disclosure of non-cash financing and investing activities:				
Acquisition of property, plant and equipment through finance leases		394		426

Note references are to the Company's interim financial statements for the three and nine months ended September 30, 2017, which are available on SEDAR at www.sedar.com