# ClearStream Announces Fourth Quarter and Annual 2017 Financial Results

**Calgary – February 28, 2018** – ClearStream Energy Services Inc. (“ClearStream”, TSX: CSM and CSM.DB.A) today announced its results for the three and twelve months ended December 31, 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.

## 2017 HIGHLIGHTS

New Contracts/Renewals

- ClearStream expanded its geographic footprint by winning contracts in Saskatchewan and Newfoundland during 2017;
- A two-year pipeline logistics and inspection contract and a three year operational workforce management contract were won in late 2017;
- New contracts are expected to generate $40 million of additional revenue for ClearStream in 2018;
- ClearStream was successful in renewing a five year operational workforce management contract with a major oilsands producer in the Fort McMurray region; this contract is expected to generate approximately $240 million of revenue over five years;

Market Conditions

- Maintenance and turnaround demand increased in 2017 relative to 2016, and contributed to a 32% increase in revenue; adjusted EBITDAS for 2017 increased by 90% compared to 2016;
- Revenue also increased in the Fort McMurray region due to a recovery in activity in 2017 compared to reduced activity in 2016 caused by the Fort McMurray forest fires;
- Despite the demand growth, our industry remained oversupplied during 2017, which placed downward pressure on pricing for our core services; as a result, gross profit margins declined to 8.5% from 9.2%;

Service Lines

- ClearStream launched an environmental services division in 2017, which provides project lifecycle consulting services for the land, environmental, regulatory, reclamation and remediation needs of our customers;
- In late 2017, management made a strategic decision to exit the transportation business. The sale of all transportation assets is expected to be completed in the first quarter of 2018. This sale will allow us to focus on our core strengths of Maintenance, Turnarounds, Workforce Management, Wear Technology, Fabrication and Environmental Services;

Refinancing

- On January 16, 2018, ClearStream announced the completion of a refinancing transaction that will significantly improve balance sheet stability. As part of this transaction, $108.6 million of long-term debt was exchanged for a newly created series of Preferred Shares. In addition, the Company issued $19 million of Preferred Shares in exchange for proceeds used to fund existing and future interest obligations.

## OVERVIEW OF FINANCIAL RESULTS

| ($ millions, except per share amounts) | Q4 2017 | Q4 2016 | YTD 2017 | YTD 2016 |
|---|---|---|---|---|
| Revenue | 82.0 | 72.9 | 357.1 | 270.7 |
| Gross profit | 6.2 | 7.3 | 30.4 | 24.9 |
| Selling, general & administrative expenses | (5.0) | (5.1) | (18.9) | (17.4) |
| Adjusted EBITDAS | 1.2 | 2.3 | 13.9 | 7.3 |
| Loss from continuing operations | (21.2) | (6.8) | (32.5) | (32.9) |
| Loss per share from continuing operations, basic and diluted | (0.19) | (0.06) | (0.30) | (0.30) |

**2007 RESULTS COMMENTARY**

Revenues for the year ended December 31, 2017 were $357.1 million compared to $270.7 million in 2016, an increase of 32.0% from 2016. Increased revenues in 2017, in comparison to 2016 revenues, relate to improved maintenance and turnaround demand and higher revenue in the Fort McMurray region. The Fort McMurray forest fires in 2016 resulted in reduced oil sands activity during the second and third quarters of 2016 and negatively impacted revenue in 2016 on a comparative basis.

Gross profit for the year ended December 31, 2017 was $30.4 million compared to $24.9 million in 2016 and gross profit margins were 8.5% compared to 9.2% in 2016. The decline in gross profit margin in 2017 was largely due to reduced pricing, which was necessary for customer retention in light of the competitive environment during 2017. Furthermore, gross profit losses on two lump sum projects within the maintenance and construction division negatively impacted overall gross profit margins in 2017.

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2017 were $18.9 million, in comparison to $17.4 million in 2016. SG&A costs were up by $1.5 million in 2017 relative to 2016 due largely to increased professional fees. As a percentage of revenue, SG&A costs decreased to 5.3% in 2017 compared to 6.4% in 2016.

Adjusted EBITDAS for 2017 increased by 90% compared to 2016.

The loss from continuing operations for the year ended December 31, 2017, includes interest costs of $20.5 million compared with $18.7 million in 2016. The increase in interest expense relates to the drawdown on the Asset Based Lending facility in the second half of 2017. The loss from continuing operations also includes a loss of $5.8 million that was recognized at December 31, 2017 to provide for an onerous contract relating to the sale of the transportation division. In addition, ClearStream performed impairment tests as at December 31, 2017 as a result of the adverse economic impact that low commodity prices have had on ClearStream and the industries that it operates in. As a result of the testing performed, an impairment loss of $7.7 million was recorded at December 31, 2017. All of the impairment losses, as well as the loss on the onerous contract, have been removed from adjusted EBITDAS.

**FOURTH QUARTER RESULTS COMMENTARY**

Revenues for the three months ended December 31, 2017 were $82.0 million compared to $72.9 million in 2016, an increase of 12.4%. Demand growth across both operating segments led to the increase in revenue, as our customers continued to spend more on maintenance programs during the fourth quarter of 2017 compared to the fourth quarter of 2016.

Gross profit for the three months ended December 31, 2017 was $6.2 million compared to $7.3 million in 2016 and gross profit margins were 7.5% compared to 10.0%. The decline in gross profit margins was due to pricing declines across all service lines combined with losses in the Transportation division. Given ClearStream's decision to sell all transportation assets, one-time expenses of approximately $0.3 million were incurred in the fourth quarter to shut down the transportation business line. SG&A costs were relatively consistent on a year-over-year basis.

Included in the loss from continuing operations in the fourth quarter of 2017 is a $5.8 million loss on an onerous contract relating to the transportation division and impairment losses on intangible assets of $7.7 million.

Adjusted EBITDAS decreased by 45% in the fourth quarter of 2017 compared to the same period in 2016.

## Segment Review

### MAINTENANCE AND CONSTRUCTION SERVICES

| ($ millions, except per share amounts) | Q4 2017 | Q4 2016 | YTD 2017 | YTD 2016 |
|---|---|---|---|---|
| Revenue | 67.0 | 61.5 | 286.4 | 223.0 |
| Gross profit | 4.6 | 5.4 | 18.7 | 17.7 |
| Selling, general & administrative expenses | (1.0) | (0.9) | (2.0) | (1.9) |
| Adjusted EBITDAS | 3.7 | 4.5 | 19.0 | 17.0 |
| Income from continuing operations | (6.0) | 3.4 | 7.1 | 11.6 |

Revenues for the Maintenance and Construction Services segment were $67.0 million and $286.4 million for the three and twelve months ended December 31, 2017 compared to $61.5 and $223.0 for the same periods in the prior year, an increase of 8.9% and 28.4%, respectively. Year-over-year demand growth for maintenance, workforce management and turnaround services drove a large portion of the revenue increase. Maintenance and turnaround programs were deferred in 2016 due to a weak commodity price environment that led to lower cash flows for our customers. Demand for these services recovered in 2017 due to slight improvements in commodity prices combined with maintenance requirements that could no longer be deferred.

A portion of the year-over-year revenue increase can also be attributed to a recovery of activity in the Fort McMurray region as the 2016 wildfires had a significant and negative impact on the maintenance and construction division in 2016. Lost revenue in 2016 due to the wildfires was approximately $25 million for the Maintenance and Construction Services segment.

Gross profit for the Maintenance and Construction Services segment was $18.7 million for the year ended December 31, 2017 compared to $17.7 million in 2016. Gross profit margin was 6.5% compared to 7.9% in 2016. For the fourth quarter of 2017, gross profit was $4.6 million compared to $5.4 million in 2016 and gross profit margin was 6.9% compared to 8.8%. The year-over-year margin decreases are due largely to a decline in pricing. In addition, annual margins in 2017 were negatively impacted by losses on certain lump sum contracts completed during 2017.

SG&A expenses remained relatively consistent on a quarterly and year-over-year basis and decreased slightly as a percentage of revenue.

### WEAR, FABRICATION, AND TRANSPORTATION SERVICES

| ($ millions, except per share amounts) | Q4 2017 | Q4 2016 | YTD 2017 | YTD 2016 |
|---|---|---|---|---|
| Revenue | 15.5 | 12.2 | 72.8 | 49.3 |
| Gross profit | 1.6 | 1.9 | 11.7 | 7.2 |
| Selling, general & administrative expenses | (0.3) | (0.2) | (0.8) | (0.6) |
| Adjusted EBITDAS | 1.3 | 1.9 | 11.0 | 6.7 |
| Income (loss) from continuing operations | (6.9) | 1.0 | 0.7 | (6.6) |

Revenues for the Fabrication, Wear Technology and Transportation segment were $15.5 million and $72.8 million for the three and twelve months ended December 31, 2017 compared to $12.2 million and $49.3 million in the prior year, an increase of 27% and 48%, respectively. For the three months ended December 31, 2017, revenue increased due to a rise in demand for wear technology services. For the year ended December 31, 2107, revenue increased within all three divisions of this segment with the largest year-over-year increase in the Wear division. The Wear division benefitted from a rise in year-over-year demand caused by improvements in commodity prices. In addition, demand for Wear's services recovered in 2017 after a drop in 2016 due to the impact of the 2016 Fort McMurray wildfires. Lost Wear revenue in 2016 due to the wildfires was estimated at $5.0 million.

Gross profit was $1.6 million and $11.7 million for the three and twelve months ended December 31, 2017 compared with $1.9 million and $7.2 million during the same periods of the prior year. Gross profit margins were 10.1% and 16.1% compared to 15.8% and 14.6% a year ago. For the fourth quarter of 2017, gross profit margins were negatively impacted by losses for the transportation division. Given ClearStream's decision to sell all transportation assets, one-time expenses of approximately $0.3 million were incurred in the fourth quarter to shut down the transportation business line. In addition, gross profit margins for the fabrication service line were down due to a decline in pricing. The lack of new capital project growth has led to increased competition for this service line.

On an annual basis, gross profit margins for this segment improved due to increased leverage on fixed costs from higher revenue. Cost reductions implemented in 2016 also favorably impacted this segment in 2017 through reduced indirect costs.

**CORPORATE**

| ($ millions, except per share amounts) | Q4 2017 | Q4 2016 | YTD 2017 | YTD 2016 |
|---|---|---|---|---|
| Selling, general & administrative expenses | 3.7 | 4.1 | 16.1 | 14.8 |

Corporate SG&A expenses were $3.7 million and $16.1 million for the three and twelve months ended December 31, 2017 compared to $4.1 million and $14.8 million for the same periods in the prior year.

For the fourth quarter of 2017, SG&A costs were down slightly due to a decline in people costs. SG&A costs increased on a year-over-year basis due to higher legal and consulting expenses.

## Outlook

Overall market conditions have started to recover with the rise in oil prices. Our customers are expected to increase maintenance and capital spending in 2018 relative to 2017 as a result of healthier commodity prices. As a result, stronger demand for our services is expected in 2018, particularly for the maintenance and wear service lines. Market conditions are expected to remain difficult for our service lines that rely on new capital projects, including fabrication and construction.

Improving market conditions and increasing maintenance demand, combined with several meaningful contract wins, are expected to result in an increase in 2018 revenue compared to 2017. Recent new contract awards are expected to generate $40 million of new revenue for ClearStream in 2018. However, our industry remains very competitive and we do not expect pricing to improve in 2018 relative to 2017. Gross profit margin improvement will only be achieved if we are able to keep fixed costs flat during 2018; cost control will continue to be an area of focus for ClearStream in 2018.

Financial results for the first quarter of 2018 are expected to be similar to the first quarter of 2017. Pricing levels are relatively consistent on a year-over-year basis and meaningful revenue increases from higher demand and new contract awards are not expected to occur until the second quarter of 2018.

ClearStream will continue to focus on the core aspects of our business including safety, cost control, and operational execution in 2018. We remain confident that improving market conditions and new contracts, combined with a focus on strong execution, will lead to stronger financial results in 2018.

## 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.

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**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 Annual Information Form available on SEDAR at www.sedar.com, 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 December 31, | 2017 | 2016 |
|---|---|---|
| Cash | $ 4,649 | $ 11,503 |
| Restricted cash (note 2) | 980 | 980 |
| Accounts receivable (note 21) | 66,177 | 46,928 |
| Inventories (note 3) | 4,304 | 3,000 |
| Prepaid expenses and other | 2,989 | 2,060 |
| Earn-out assets (note 4) | 1,277 | 1,608 |
| Assets held for sale (note 11) | 2,506 | - |
| **Total current assets** | 82,882 | 66,079 |
| Property, plant and equipment, net (note 5) | 20,657 | 24,745 |
| Goodwill and intangible assets (note 6) | 26,765 | 38,088 |
| Earn-out assets (note 4) | 1,173 | 4,056 |
| Long-term investments | 575 | 579 |
| Deferred financing costs (note 7) | 591 | 1,295 |
| **Total assets** | **$ 132,643** | **$ 134,842** |
| Accounts payable and accrued liabilities | $ 36,276 | $ 26,848 |
| Deferred revenue | 146 | 167 |
| Current portion of obligations under finance leases (note 10) | 1,462 | 3,902 |
| Current liabilities of assets held for sale (note 11) | 1,197 | - |
| ABL facility (note 7) | 27,500 | - |
| Senior secured debentures (notes 7, 8) | 171,988 | - |
| Convertible secured debentures (notes 7, 9) | 24,999 | - |
| Provisions (note 11) | 5,778 | 4,985 |
| **Total current liabilities** | 269,346 | 35,902 |
| ABL facility (note 7) | - | 3,500 |
| Obligations under finance leases (note 10) | 2,185 | 2,915 |
| Senior secured debentures (notes 7, 8) | - | 171,642 |
| Convertible secured debentures (notes 7, 9) | - | 24,397 |
| **Total liabilities** | 271,531 | 238,356 |
| Shareholders' deficit | (138,888) | (103,514) |
| **Total liabilities and shareholders' deficit** | **$ 132,643** | **$ 134,842** |

Note references are to the Company’s consolidated financial statements for the year ended December 31, 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)

| For year ended December 31, | | 2017 | | 2016 |
|---|---|---|---|---|
| Revenue (note 13) | $ | 357,147 | $ | 270,661 |
| Cost of revenue | | (326,728) | | (245,750) |
| **Gross profit** | | 30,419 | | 24,911 |
| Selling, general and administrative expenses (note 14) | | (18,866) | | (17,382) |
| Share based compensation (note 19) | | (710) | | - |
| Amortization of intangible assets (note 6) | | (3,445) | | (3,376) |
| Depreciation (note 5) | | (5,264) | | (6,625) |
| Income (loss) from equity investment | | 246 | | (169) |
| Interest expense (note 15) | | (21,474) | | (21,259) |
| Gain (loss) on sale of assets held for sale | | (570) | | 1,260 |
| Restructuring costs (note 18) | | (1,414) | | (1,471) |
| Impairment of intangible assets (note 6) | | (7,685) | | (8,700) |
| Other (loss) income (note 11) | | (5,778) | | 623 |
| (Loss) gain on sale of property, plant and equipment (note 5) | | 2,083 | | (728) |
| **Loss before taxes** | | (32,458) | | (32,916) |
| Income tax expense - current (note 16) | | (2) | | (21) |
| **Loss from continuing operations** | | (32,460) | | (32,937) |
| Loss from discontinued operations (net of income taxes) (note 11) | | (3,445) | | (12,793) |
| **Net loss and comprehensive loss** | $ | (35,905) | $ | (45,730) |
| **Loss per share (note 17)** | | | | |
| Basic & Diluted: | | | | |
| Continuing operations | $ | (0.30) | $ | (0.30) |
| Discontinued operations | $ | (0.03) | $ | (0.12) |
| Net loss | $ | (0.33) | $ | (0.42) |

Note references are to the Company's consolidated financial statements for the year ended December 31, 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)

| For the year ended December 31, | | 2017 | | 2016 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Net loss for the year | $ | (35,905) | $ | (45,730) |
| Loss from discontinued operations (net of income tax) (note 11) | | 3,445 | | 12,793 |
| Items not affecting cash: | | | | |
| Share based compensation (note 19) | | 531 | | - |
| Amortization of intangible assets (note 6) | | 3,445 | | 3,376 |
| Depreciation (note 5) | | 5,264 | | 6,625 |
| Income from equity investments | | (246) | | 169 |
| Non-cash accretion expense (note 15) | | 949 | | 2,526 |
| Amortization of deferred financing costs (note 15) | | 704 | | 432 |
| (Gain) loss on sale of assets held for sale (note 11) | | 570 | | (1,260) |
| Loss (gain) on sale of property, plant and equipment (note 5) | | (2,083) | | 728 |
| Impairment of goodwill and intangible assets (note 6) | | 7,685 | | 8,700 |
| Loss on onerous lease (note 11) | | 5,778 | | - |
| Changes in non-cash working capital (note 22) | | (12,076) | | 24,569 |
| Advances to discontinued operations | | - | | (3,931) |
| Cash used in discontinued operations (note 11) | | (5,785) | | (4,432) |
| **Total cash (used in) provided by operating activities** | | (27,724) | | 4,565 |
| Investing activities: | | | | |
| Purchase of property, plant and equipment (note 5) | | (2,681) | | (1,417) |
| Proceeds on disposition of property, plant and equipment, net (note 5) | | 3,063 | | 1,927 |
| Proceeds on disposition of businesses (note 11) | | - | | 14,800 |
| Purchase of intangibles (note 6) | | (63) | | (274) |
| Dividend proceeds from equity investments | | 250 | | - |
| **Total cash provided by investing activities** | | 569 | | 15,036 |
| **Financing activities:** | | | | |
| Repayment of senior credit facility | | - | | (58,735) |
| Repayment of 8.00% secured debentures (note 8) | | - | | (176,228) |
| Proceeds from the issuance of senior secured debentures (note 8) | | - | | 176,228 |
| Proceeds from the issuance of convertible secured debentures (note 9) | | - | | 35,000 |
| Refinancing fees (ABL facility, senior and convertible secured debentures) | | - | | (10,256) |
| Advance on ABL facility (note 7) | | 24,000 | | 3,500 |
| Decrease in restricted cash (note 2) | | - | | 3,400 |
| Repayment of obligations under finance leases (note 10) | | (3,699) | | (5,416) |
| **Total cash provided by (used in) financing activities** | | 20,301 | | (32,507) |
| Decrease in cash | | (6,854) | | (12,906) |
| Cash beginning of year | | 11,503 | | 24,409 |
| Cash end of year | $ | 4,649 | $ | 11,503 |
| Supplemental cash flow information: | | | | |
| Interest paid | $ | 11,021 | $ | 9,404 |
| Supplemental disclosure of non-cash financing and investing activities: | | | | |
| Acquisition of property, plant and equipment through finance leases | $ | 1,726 | $ | 1,201 |

Note references are to the Company's consolidated financial statements for the year ended December 31, 2017, which are available on SEDAR at www.sedar.com