ClearStream Announces Fourth Quarter and Annual 2018 Financial Results

Calgary – March 22, 2019 – ClearStream Energy Services Inc. (“ClearStream”, TSX: CSM and CSM.DB.A) today announced its results for the three and twelve months ended December 31, 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.

2018 HIGHLIGHTS

2018 was a year of transition as we set the stage for the future of our Company. Progress was made in completing the largest number of turnarounds in the history of our organization, protecting market share through major contract renewals, and increasing our customer base with new contract wins. These achievements were accomplished despite a continued challenging environment with increased volatility for Oil & Gas prices impacting our client’s cash flows. Maintenance and turnaround demand increased modestly in 2018 relative to 2017. Overall demand for our services in conjunction with market share gains obtained throughout 2018, led ClearStream to achieving a 40% improvement of revenue compared to the low revenue level following the downturn. On January 2, 2019 ClearStream announced four significant contract renewals and new work with major Upstream, Midstream and Downstream Oil & Gas companies in Canada representing a 100% contract renewal rate for the third year in a row. We continue to have strong long-standing relationships with our tier-one customer base. As evidenced by our contract renewal rate, ClearStream is now well recognized as a trusted provider of industrial and asset integrity services to improve our customers’ facilities and operations in a safe, efficient and cost effective manner.

However, the maintenance business remained very competitive during 2018, with continued downward pressure on pricing for our core services. This was further compounded by unfavorable sales mix between union/non-union businesses impacting negatively our operating margins. We were able to persevere in this difficult operating environment by providing the required services on time and with the highest quality of standards thanks to our engaged and experienced workforce, while improving further yet again our safety performance in 2018 compared to prior years.

2018 was also a year of shifting our focus to strategic growth initiatives in our differentiated offerings and higher margin service lines, which include Wear Technology and Environmental Services. With the recent acquisition of AFX Materials and Fabrication Ltd., the manufacturing capacity of ClearStream’s existing Wear technology business is expected to increase by 30%. In addition, the Company embarked into an important program of business process improvements to increase operational effectiveness and lower operating costs in order to remain ahead of the competition and maximize margins in this market environment. Asset utilization, manufacturing efficiencies, process standardization and automation as well as centralization across the organization are some of the key initiatives in focus that will be fully realized in 2019 and onwards.

On January 16, 2018, ClearStream completed a refinancing transaction that has significantly improved our 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 cash proceeds to fund existing and future interest obligations. We also continue to have strong financial support from our key stakeholders as evidenced by the $10 million term loan obtained on November 2, 2018.

There were significant changes in our Executive Leadership Team with the appointments of a Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer and General Counsel throughout 2018. With the new Executive Leadership Team focused on creating value for its shareholders, the support from our financial partners and our track record of strong operational execution through a broad range of service offerings, we are confident that ClearStream will continue to expand its scope of services and geographical footprint with more value-added solutions and technologies, thus positioning ClearStream for improved profitability in 2019.

OVERVIEW OF FINANCIAL RESULTS

($ millions, except per share amounts)	**Q4 2018**	**Q4 2017**	**YTD 2018**	**YTD 2017**
Revenue	77.8	82.0	378.3	357.1
Gross profit	6.2	6.2	27.1	30.4
Selling, general & administrative expenses	(6.5)	(5.0)	(21.3)	(18.9)
Adjusted EBITDAS	1.2	1.2	7.7	11.7
Loss from continuing operations	(3.6)	(21.2)	(30.1)	(32.5)
Loss per share from continuing operations, basic and diluted	(0.30)	(0.19)	(0.28)	(0.30)

2018 RESULTS COMMENTARY

Revenues for the year ended December 31, 2018 were $378.3 million compared to $357.1 million in 2017, an increase of 6% from 2017. The increase in 2018, in comparison to 2017, relate to increased turnaround demand and higher revenue in the Fort McMurray region. This increase was partially offset by the reduction in transportation revenue as this division was divested in Q1 2018.

Gross profit for the year ended December 31, 2018 was $27.1 million compared to $30.4 million in 2017. Gross profit margins were 7.2% compared to 8.5% in 2017. The decline in gross profit margin in 2018, in comparison to 2017, was largely due to reduced pricing which was necessary for customer retention. In addition, a larger proportion of revenue was earned in 2018 compared to 2017 in our ClearWater turnaround business, which is lower margin work due to the higher cost of labour associated with this type of service offering.

Selling, general and administrative (“SG&A”) costs for the year ended December 31, 2018 were $ 21.3 million, in comparison to $18.9 million in 2017. SG&A costs were up by $2.4 million in 2018 relative to 2017 due largely to increased transition costs including but not limited to professional fees incurred in the refinancing as well as in second half of 2018 related to growth initiatives. In addition, SG&A includes one-time expenses related to the acquisition of AFX, and other expenses to support business process improvements designed to increase operational effectiveness and lower operating costs going forward.

As a percentage of revenue, SG&A costs slightly increased to 5.6% in 2018 compared to 5.3% in 2017. Included in 2018 SG&A costs are $1.8 million in one-time expenses.

Non-cash items that impacted the 2018 results were depreciation and amortization and write-down of goodwill. Depreciation and amortization was $6.3 million for the year ended December 31, 2018 compared to $ $8.7 million for 2017. The decrease in depreciation and amortization expense were due to reduction in depreciable assets as result of the sale of Transportation division in the first quarter of 2018. In addition, ClearStream has lowered capital spending programs in response to the challenging market conditions, which has contributed to reduced depreciable asset base in 2018 relative to 2017.

For the year ended December 31, 2018, interest costs, excluding accretion expense, were $12.5 million compared with $21.5 million in 2017. Interest expense decreased due to the significant decline in debenture debt from the refinancing transaction that was completed in January of 2018. Non-cash accretion expense was $0.860 million for 2018 compared to $0.856 million for 2017. Accretion expense relates to the debentures, which were recorded at their fair value, less financing costs, and accrete up to their face value using the effective interest method over their term.

Restructuring costs of $0.165 million were recorded during 2018, in comparison to $1.414 million in 2017. These non-recurring restructuring costs are comprised of severance and location closure costs. Restructuring costs in 2018 also includes costs associated with the refinancing transaction that closed in early 2018.

The loss from continuing operations was $30.1 million in 2018, in comparison to $32.5 million in 2017. The losses in 2018 include a $17.7 million impairment write-down for goodwill relating to the Maintenance and Construction segment recorded in the third quarter of 2018.

The loss from discontinued operations was $1.5 million and due to expenses that the Company continues to incur relating to sale of business prior to March 2016. These expenses consist largely of legal, insurance, and consulting costs relating to the Quantum Murray earn-out and legal proceedings that existed prior to the sale of the business. For the year ended December 31, 2017 a loss of $5.8 million was recognized to provide for an onerous contract relating to the sale of the transportation division. For the year ended December 31, 2018, adjusted EBITDAS was $7.7 million compared to $11.8 million in 2017. Adjusted EBITDAS for the year ended December 31, 2018, declined compared to 2017 due to lower gross margins in 2018 and increase in the SG&A.

FOURTH QUARTER RESULTS COMMENTARY

Revenues for the three months ended December 31, 2018 were $77.8 million compared to $82.0 million in 2017, a decrease of 5% on year-over-year basis. This decrease is due to witnessed declining in Fabrication division's revenue due to lower customer demand for union service offering.

Gross profit for the three months ended December 31, 2018 was $6.1 million compared to $6.2 million in 2017. Gross margins were 8% for the three months ended December 31, 2018 compared to 7.5% in the fourth quarter of 2017. The increase in gross margins in the three months ended December 31, 2018 was due to realized efficiencies in all services lines.

SG&A for the three months ended December 31, 2018 was $6.5 million compared to $5 million in 2017, this increase is mainly due to one-time expenses, legal and consulting fees, incurred in the three months ended December 31, 2018 of $0.45 million to support the AFX acquisition as well as a number of transformation and improvement initiatives.

Restructuring costs decreased significantly on a quarter-over-quarter basis as a majority of the ClearStream restructuring initiatives were implemented in first two quarters of 2018.

Depreciation and amortization was $0.492 million for the three months ended December 31, 2018, compared to $2.2 million for 2017. This decrease is primarily related to sale of transportation services assets in March 2018.

The decrease in interest expense relates to the costs of servicing the ABL facility in 2018, this decrease is primarily related partial conversion of senior debenture in first quarter of 2018.

Segment Review

MAINTENANCE AND CONSTRUCTION SERVICES

($ millions, except per share amounts)	Q4 2018	Q4 2017	YTD 2018	YTD 2017
Revenue	61.4	67.0	318.8	286.4
Gross profit	3.7	4.6	15.8	18.7
Selling, general & administrative expenses	0.153	(1.0)	(1.1)	(2.0)
Adjusted EBITDAS	4.2	3.7	15.6	17.0
Income (loss) from continuing operations	3.1	(6.0)	(7.1)	7.1

REVENUES

Revenues for the Maintenance and Construction Services segment were $318.8 million for the year ended December 31, 2018 compared to $286.4 million in the prior year, which reflects an increase of 11.3%. Year-over-year demand growth for maintenance, workforce management and turnaround services drove a large portion of the revenue increase. Large plant turnarounds in Saskatchewan and Newfoundland were completed during the second quarter of 2018, which were incremental compared to 2017. Also demand for these services recovered in 2018 compared to 2017 due to slight improvements in commodity prices combined with maintenance requirements that could no longer be deferred.

GROSS PROFIT

Gross profit was $15.8 million for the year ended December 31, 2018, compared to $18.7 million in the prior year in the prior year. Gross profit margins for those same periods were 5.0% compared to 6.5% 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 and third 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.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Maintenance and Construction segment were $1.1 million for the year ended December 31, 2018 compared to $2 million in 2017, SG&A expenses decreased year over year basis mainly due to reductions in headcount and discretionary spending which started late of 2017 and early of 2018.

Write-down of Goodwill

ClearStream performed impairment tests as at December 31, 2018 as a result of the adverse economic impact that low commodity prices have had on ClearStream's financial results and the industries that it operates in. The adverse economic impacts include lower pricing and demand for goods and services provided to customers. As a result of the testing performed, a goodwill impairment loss of $17.7 million was recorded in the third quarter of 2018 for the maintenance and construction segment. The goodwill impairment write-down is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, or debt covenants and does not have an impact on the future operations of the Company.

For the year ended December 31, 2018, adjusted EBITDAS was $15.6 million compared to $17 million in 2017. Adjusted EBITDAS for the year ended December 31, 2018, is declined compared to 2017 due to lower gross margins in 2018.

WEAR, FABRICATION, AND TRANSPORTATION SERVICES

($ millions, except per share amounts)	Q4 2018	Q4 2017	YTD 2018	YTD 2017
Revenue	15.7	15.5	61.3	60.0
Gross profit	2.5	1.6	11.3	11.6
Selling, general & administrative expenses	0.68	(0.3)	(1.1)	(0.8)
Adjusted EBITDAS	1.8	1.3	10.1	11.0
Income (loss) from continuing operations	1.8	(6.9)	8.7	0.7

REVENUES

Excluding the Transportation division, revenues for this segment for the year ended December 31, 2018 were $61.3 million, compared to $60 million in 2017. The slight increase in revenue was largely due to an increase in Wear Technology demand. AFX acquisition completed in third quarter of 2018 added additional 30% capacity which significantly contributed to such increase in revenue, this increase was offset by decrease in fabrication division due to lower demand in 2018.

GROSS PROFIT

Gross profit was $11.3 million for the year ended December 31, 2018, compared to 11.6 million for the same periods in the prior year. On a year-over-year basis, gross margins were relatively consistent compared to the prior year.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Excluding the Transportation division, SG&A expenses for the Fabrication and Wear Technology segment for the year ended December 31, 2018 increased compared to the prior periods due to an increase in people costs.

The other loss of $0.86 million for the year ended December 31, 2018 compared to $5.7 million in 2018, relates to losses on a contract that was deemed to be onerous under IFRS after the sale of the transportation assets. The gain on sale of assets held for sale relates to the sale of the Transportation business that closed in early 2018.

CORPORAT E

($ millions, except per share amounts)	Q4 2018	Q4 2017	YTD 2018	YTD 2017
Selling, general & administrative expenses	5.6	3.7	19.1	16.1

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses were $19.1 million for the year ended December 31, 2018 compared to $16.1 million in the prior year. SG&A costs increased on a year-over-year basis due to higher legal, consulting and people costs, incurred with the refinancing transaction as well as initiatives to support business process improvements designed to increase operational effectiveness and lower operating costs going forward. Included in SG&A costs are $0.729 million in one-time expenses, which include costs related to the acquisition of AFX and other growth initiatives. As a percentage of consolidated revenue, Corporate SG&A costs is 5.5% in 2018 compared to 5.3% in 2017 were relatively consistent compared to the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The company expects cash flow from operations and equity issuance will be sufficient to meet the foreseeable business operating and recurring cash needs (including for debt service, capital expenditures).

	2018	2017
Cash used in by operating activities	$ (11.39)	$ (27.72)
Total cash provided by investing activities	1.053	0.57
Total cash provided by financing activities	16.5	20
Consolidated cash at December 31,	10.8	4.6

	2018	2017
Cash used in continuing operations before interest	$ 12.5	$ 12
Interest expense	(12.5)	(21.5)
Decrease in cash due to changes in working capital	(2.9)	(12.1)
Cash used in discontinued operations	(1.5)	(5.8)

Cash used in continuing operations represents the net loss incurred during 2018 adjusted for interest and non-cash items, including depreciation, amortization and asset impairments.

OPERATING ACTIVITIES

Net cash used by operations for the year ended December 31, 2018 was $11.39 million (2017 – $27.72 million), a decrease of $16.37 million, this improvement is due to decrease in non-cash working capital of $8 million and decrease in cash used for discontinued of $4.2 million

INVESTING ACTIVITIES

Net cash provided by Investing activities for the year ended December 31, 2018 was $1.053 million (2017 – 0.57 million), an increase of $0.483 million. Cash inflows related to investment activities consist of proceeds of $3.4 million from the sale of transportation assets and $1.2 million in proceeds from the early settlement of an earn-out receivable. These proceeds were offset partially by transaction costs of $1.06 million paid on the transportation asset sale as well as $2.4 million in cash paid for the acquisition of AFX.

FINANCING ACTIVITIES

The Company repaid $2.3 million of the senior secured debentures with a portion of the proceeds on sale of transportation assets. The remaining cash from the sale was used to fund transaction costs and costs associated with closing down the transportation division.

Subsequent event

In March 2015, the Company was advised by Brompton Corp. ("Brompton") that Brompton had received notices of reassessment from the Canada Revenue Agency (the "CRA") relating to Brompton's tax returns for the 2010 to 2014 taxation years. The Company, previously held approximately 40% of the outstanding equity of Brompton which it sold in September 2011.

Brompton requested the Company pay its share of the reassessment amount and through a court decision the Company was required to pay Brompton $4,969 which included taxes, interest, legal fees and costs for appeal. At December 31, 2017, the Company had fully paid Brompton's claim and recorded the cost through discontinued operations. Brompton appealed the notice of assessment and in October 2018, Brompton Corp ("Brompton") received an offer from CRA to settle its appeal.

In February 2019, the Company received a refund of $3,250, which represents 65% of the total payment previously made by Clearstream. This has been accounted for as adjusting subsequent event and a receivable has been included in the December 31, 2018 financial statements with a corresponding gain recognized in discontinued operations, and will have a positive impact on the Company's liquidity at the end of Q1 2019.

Outlook

Overall market conditions have started to witness some recovery with the rise in commodity prices. Our customers are expected to increase maintenance and capital spending in 2019 relative to 2018 as a result of healthier commodity prices and increased focus on operational reliability, but are likely to maintain spending discipline in light of commodity pricing volatility. As a result, stronger demand for our services is expected in 2019, particularly for the non-union maintenance and wear service lines. Market conditions are expected to remain difficult for our service lines that rely on major capital projects, including fabrication and construction. Notwithstanding, the sanctioning of the LNG Canada project as well as the increase of mid-stream infrastructure spending, necessary to improve market access for Canadian Oil & Gas products, are expected to impact favorably our market environment.

Improving market conditions and maintenance demand, combined with several meaningful contract wins, more favorable sales mix between union and non-union activities as well as internal business process improvements, are expected to result in an increase in 2019 profitability compared to 2018. However, our industry remains very competitive and we do not expect pricing to improve in 2019 relative to 2018. As a result, cost control will continue to be an area of focus for ClearStream in 2019.

Financial results for the first quarter of 2019 are expected to be similar to the first quarter of 2018. 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 2019.

ClearStream will continue to focus on the core aspects of our business including safety, cost control, and operational execution in 2019. We remain confident that improving market conditions and new contracts, combined with a focus on strong execution, will lead to stronger financial results in 2019.

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