ClearStream

Second Quarter Report
2017

Helping Customers
Bring Resources to Our World

DEAR SHAREHOLDERS

ClearStream's financial results in the second quarter of 2017 improved significantly with revenue up 82% and adjusted EBITDAS up 338% compared to the second quarter of 2016. The year-over-year improvement was driven by a recovery of activity from the Fort McMurray fires that impacted our operations in the second quarter of 2016, as well as increased demand, improved operational performance, and continued cost control initiatives.

The increased demand was largely due to strong maintenance and facility turnaround activity by our customers during the second quarter of 2017. Given the weak market conditions in 2016, a large portion of maintenance and turnaround spending was deferred. As maintenance and turnaround activity cannot be deferred for an extended period of time, some of the deferred spending plans, in addition to normal maintenance and turnaround activity, were executed during the second quarter of 2017; in particular, turnaround demand, which typically peaks during the spring.

Effective operational execution also contributed to the strong second quarter financial results. Improvements in safety, quality and recruiting execution have allowed us to protect and grow market share during 2017, as we continue to renew existing contracts and add contracts with new customers, the largest of which was the announcement of a five-year operational workforce management contract renewal with a major oilsands producer in the Fort McMurray region. This contract is expected to generate approximately $240 million of revenue over its five-year term.

Efficient cost management continued to be a focus for ClearStream during the second quarter of 2017. Indirect cost of revenues, which are fixed in nature, decreased by 26% compared to the second quarter of 2016. Selling, general and administrative costs incurred in the second quarter of 2017 decreased by 11% compared to the same period in 2016 after adjusting for the workers' compensation board ("WCB") surplus rebate. Salaries and benefits are typically reduced by a WCB rebate in the second quarter, which is granted annually at the discretion of the WCB of Alberta. The rebate was not received in 2017 as the WCB-Alberta program is currently under review.

Despite the improved financial results, ClearStream continues to operate in a very competitive environment. Demand for our services is correlated to commodity prices and with continued downward pressure and uncertainty on commodity prices, the competitive landscape is expected to remain challenging for the foreseeable future. In response to these market conditions, we will continue to focus on cost efficiency, while at the same time providing industry leading service to our customers.

During the second quarter of 2017, ClearStream announced the resignation of its CEO, John Cooper. Mr. Cooper has remained on the Board and is assisting the Company in ensuring a smooth transition. The ClearStream Board is currently in the process of finding a suitable replacement to fill the CEO position on a permanent basis. We believe ClearStream is well positioned to continue to grow its business thanks to the efforts made by John and the Executive Team over the past two years. The Board, executive team and employees remain confident in ClearStream's ability to create growth and value under new leadership.

Thank you for your continued support.

Dean MacDonald
Interim Chief Executive Officer and Executive Chairman

Management's Discussion and Analysis

August 3, 2017

The following is management's discussion and analysis ("MD&A") of the interim results of operations and balance sheet of ClearStream Energy Services Inc. ("ClearStream" or the "Company") for the three and six months ended June 30, 2017 and 2016. This MD&A should be read in conjunction with ClearStream's condensed interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2017 and 2016 (the "Interim Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2016 and 2015 (the "Annual Financial Statements").

All amounts in this MD&A are in Canadian dollars and expressed in thousands of dollars unless otherwise noted. The Interim Financial Statements have been prepared by and are the responsibility of management. The contents of this MD&A have been approved by the Board of Directors of ClearStream on the recommendation of its Audit Committee. This MD&A is dated August 3, 2017 and is current to that date unless otherwise indicated.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Interim Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

This MD&A makes reference to certain measures that are not defined in IFRS and contains forward-looking information. These measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-Standard Measures" on page 4.

References to "we", "us", "our" or similar terms, refer to ClearStream, unless the context otherwise requires.

Reportable Segments

The reportable segments discussed below, represent the reportable segments that the chief operating decision maker considers when reviewing the performance of ClearStream and deciding where to allocate resources.

ClearStream's operations, assets and employees are located entirely in Canada. ClearStream utilizes EBITDAS and Adjusted EBITDAS as performance measures for its segmented results. These measures are considered to be non-standard measures under IFRS.

Segment	Business Description
Maintenance and Construction Services	Operational, maintenance, turnaround and construction services to the conventional oil and gas, oilsands, and other industries.
Wear, Fabrication and Transportation Services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate, and transportation and pipe logistics services to the drilling sector.
Corporate	ClearStream head office management, administrative, legal and interest expense costs.

Forward-looking information

This MD&A contains certain forward-looking information. Certain information included in this MD&A 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 MD&A, 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 MD&A 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-standard measures'') are financial measures used in this MD&A that are not standard measures under IFRS. ClearStream's method of calculating Non-standard measures may differ from the methods used by other issuers. Therefore, ClearStream's Non-standard 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 this 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 this MD&A.

Investors are cautioned that the Non-standard 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-standard 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.

Second Quarter 2017 Performance

Summary Results ($000's)

	Three months ended June 30, 2017	Three months ended June 30, 2016[1]	Six months ended June 30, 2017	Six months ended June 30, 2016[1]
Revenues	111,559	61,335	189,248	129,975
Cost of revenues - direct	(96,315)	(50,208)	(163,055)	(106,685)
Cost of revenues - indirect	(4,171)	(5,662)	(8,580)	(12,509)
Gross profit	11,073	5,465	17,613	10,781
Selling, general and administrative expenses	(4,395)	(4,002)	(8,923)	(8,955)
Share based compensation	(350)	-	(659)	-
Amortization expense	(864)	(901)	(1,727)	(1,802)
Depreciation expense	(1,358)	(1,586)	(2,589)	(3,134)
Income (loss) from equity investments	93	83	130	139
Loss from long-term investments	-	(3)	-	(294)
Interest expense	(5,186)	(4,704)	(10,218)	(10,945)
Gain (loss) on sale of assets held for sale	(515)	-	(392)	1,114
Restructuring costs	(167)	-	(444)	-
Impairment of goodwill and intangible assets	-	-	-	(8,700)
Gain on sale of property, plant and equipment	161	277	2,078	332
Income tax expense - current	(2)	(20)	(2)	(19)
Net loss from continuing operations	(1,510)	(5,391)	(5,133)	(21,483)
Add:				
Amortization	864	901	1,727	1,802
Depreciation	1,358	1,586	2,589	3,134
Share based compensation	350	-	659	-
Interest expense	5,186	4,704	10,218	10,945
Income tax expense - current	2	20	2	19
EBITDAS	6,250	1,820	10,062	(5,583)
Loss from long-term investments	-	3	-	294
(Gain) loss on sale of assets held for sale	515	-	392	(1,114)
Restructuring costs	167	-	444	-
Impairment of goodwill and intangible assets	-	-	-	8,700
Gain on sale of property, plant and equipment	(161)	(277)	(2,078)	(332)
Adjusted EBITDAS	6,771	1,546	8,820	1,965

[1] Certain figures in the comparative period have been reclassified to conform to the current period presentation.

Selected Balance Sheet Accounts		
As at	June 30, 2017	December 31, 2016
Total assets	$ 155,235	$ 134,842
ABL facility	21,750	3,500
Senior secured debentures	171,813	171,642
Convertible secured debentures	24,629	24,397
Shareholders' deficit	(110,389)	(103,514)

Second Quarter 2017 results

Revenues for the three and six months ended June 30, 2017 were $111,559 and $189,248, compared to $61,335 and $129,975 for the same periods in 2016, an increase of 81.9% and 45.6%. Demand for ClearStream's services increased for both reportable segments due to increased scope with existing customers, increased revenue from new customers, and a recovery in demand in Fort McMurray activity after the 2016 wildfires.

Gross profit for the three and six months ended June 30, 2017 was $11,073 and $17,613, compared to $5,465 and $10,781 for the same periods in 2016; and gross margins were 9.9% and 9.3% compared to 8.9% and 8.3% for the same periods in 2016. Gross margins improved on a year-over-year basis as cost cutting initiatives executed in 2016 led to reductions in fixed indirect costs. The impact on gross margins due to reductions in indirect costs was partially offset by an increase in direct costs as a percentage of sales due to declines in pricing.

Selling, general and administrative ("SG&A") costs for the three and six months ended June 30, 2017 were $4,395 and $8,923, compared to $4,002 and $8,955 for the same periods in 2016. As a percentage of revenue, SG&A expenses decreased over the comparative periods in 2016 due to cost cutting initiatives that were implemented in 2016, the largest being reductions in the number of employees and operating locations. On a comparative basis, SG&A costs in 2016 were reduced by a workers' compensation board ("WCB") surplus rebate of approximately $950 that was received in the second quarter of 2016. A 2016 rebate has not yet been received in 2017 as the WCB program in Alberta is currently under review. When adjusting for this WCB surplus rebate, SG&A costs decreased by 11% and 10% for the three and six months ended June 30, 2017, respectively.

For the three and six months ended June 30, 2017, adjusted EBITDAS was $6,771 and $8,820, compared to $1,546 and $1,965 for the same periods in 2016.

Depreciation and amortization expense was $2,222 and $4,316 for the three and six months ended June 30, 2017, compared to $2,487 and $4,936 for the same periods in 2016. The decreases were due to a reduction in depreciable assets relating to downsizing efforts in 2016.

For the three and six months ended June 30, 2017, interest costs, excluding accretion expense, were $4,970 and $9,816, compared to $4,515 and $8,839 for the same periods in 2016. The change in interest expense relates to the net impact of debt restructuring initiatives that were completed during the first quarter of 2016. Non-cash accretion expense were $216 and $402 compared to $189 and $2,106 for the same periods in 2016. Accretion expense relates to the 8.00% secured debentures, senior secured debentures, and convertible secured debentures, which were recorded net of transaction costs, and accrete up to their face value using the effective interest method over the term of the debentures. The higher accretion expense in year-to-date 2016 period was due to the 8.00% secured debentures maturing on March 23, 2016.

The net loss from continuing operations was $1,510 and $5,133 for the three and six months ended June 30, 2017, compared to the net loss from continuing operations of $5,391 and $21,483 for the same periods in 2016.

Segment Operating Results

Maintenance and Construction Services

	Three months ended June 30, 2017	Three months ended June 30, 2016[1]	Six months ended June 30, 2017	Six months ended June 30, 2016[1]
Revenues	$ 93,638	$ 50,081	$ 152,846	$ 104,733
Cost of revenues - direct	(83,509)	(42,887)	(137,852)	(90,444)
Cost of revenues - indirect	(2,282)	(3,234)	(4,709)	(7,337)
Gross profit	7,847	3,960	10,285	6,952
Selling, general and administrative expenses	(437)	(415)	(772)	(891)
Amortization expense	(46)	(78)	(93)	(126)
Depreciation expense	(683)	(716)	(1,246)	(1,410)
Income from equity investments	93	83	130	139
Interest expense	(77)	(94)	(127)	(188)
Gain on sale of property, plant and equipmen	50	220	1,966	272
Income from continuing operations	$ 6,747	$ 2,960	$ 10,143	$ 4,748

[1] Certain figures in the comparative period have been reclassified to conform to the current period presentation.

Revenues

Revenues for the Maintenance and Construction Services segment were $93,638 and $152,846 for the three and six months ended June 30, 2017 compared to $50,081 and $104,733 for the same periods in the prior year, an increase of 86.7% and 45.9%. A recovery of activity in Fort McMurray contributed to the increase in revenue as second quarter financial results in 2016 were negatively impacted by the Fort McMurray fires. An increase in maintenance and plant turnaround demand across all of our operating regions also led to the increased revenue. Maintenance and turnaround demand has increased due to a modest rise in oil and gas prices that has allowed our customers to increase maintenance spending after significant maintenance deferrals in 2016. ClearStream has also increased revenue with the addition of new customers and new contracts in 2017 compared to 2016.

Gross Profit

Gross profit was $7,847 and $10,285 for the three and six months ended June 30, 2017, compared with $3,960 and $6,952 for the same periods in the prior year. Gross profit margins for those same periods were 8.4% and 6.7% compared to 7.9% and 6.6% in 2016. Gross profit margins increased as cost reductions more than offset the impact of lower pricing for our services. The primary cost reductions included decreases to the number of employees and operating locations.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses for the Maintenance and Construction segment were $437 and $772 for the three and six months ended June 30, 2017, compared with $415 and $891 for the same periods in the prior year. As a percentage of revenue, SG&A expenses decreased over the comparative periods in 2016 due to cost cutting initiatives implemented since 2016 in response to a decline in market conditions.

Other

The gain on sale of property, plant and equipment for the six months ended June 30, 2017, relates largely to the sale of two non-essential properties that occurred during the first quarter of 2017.

Fabrication, Wear Technology and Transportation Services

	Three months ended June 30,		Six months ended June 30,	
	2017	2016[1]	2017	2016[1]
Revenues	$ 18,460	$ 11,450	$ 37,356	$ 26,120
Cost of revenues - direct	(13,343)	(7,518)	(26,155)	(17,119)
Cost of revenues - indirect	(1,891)	(2,427)	(3,873)	(5,172)
Gross profit	3,226	1,505	7,328	3,829
Selling, general and administrative expenses	(154)	(123)	(337)	(318)
Amortization expense	(73)	(72)	(146)	(144)
Depreciation expense	(584)	(726)	(1,171)	(1,435)
Interest expense	(53)	(82)	(109)	(191)
Gain on sale of property, plant and equipment	111	57	112	62
Income from continuing operations	$ 2,473	$ 559	$ 5,677	$ 1,803

[1] Certain figures in the comparative period have been reclassified to conform to the current period presentation.

Revenues

Revenues for the Fabrication, Wear Technology and Transportation segment were $18,460 and $37,356 for the three and six months ended June 30, 2017, compared to $11,450 and $26,120 for the same periods in the prior year, an increase of 61.2% and 43.0%. A recovery of activity in Fort McMurray contributed to the increase in revenue as second quarter financial results in 2016 were negatively impacted by the Fort McMurray fires. Commodity price improvements have also led to a comparative increase in demand for Wear and Transportation services. Fabrication demand continues to be negatively impacted by the lack of new infrastructure projects within the oil and gas industry.

Gross Profit

Gross profit was $3,226 and $7,328 for the three and six months ended June 30, 2017, compared with $1,505 and $3,829 for the same periods in the prior year. Gross profit margins for those same periods were 17.5% and 19.6% compared to 13.1% and 14.7% in 2016. Gross profit margins for the segment increased due to cost cutting reductions that were implemented in 2016. Increased operational leverage on our fixed cost structure due to the rise in revenue also contributed to the higher gross profit margins.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses for the Fabrication, Wear Technology and Transportation segment were $154 and $337 for the three and six months ended June 30, 2017, compared to $123 and $318 for the same periods in the prior year. As a percentage of revenue, SG&A expenses decreased over the comparative periods in 2016 due to cost cutting initiatives implemented since 2016 in response to a decline in market conditions.

Corporate

ClearStream's head office functions were fully transitioned from its Toronto office to its Calgary office as of December 31, 2016. The tables below reflect the costs of ClearStream's corporate function, as well as other corporate overhead expenses.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016[1]	2017	2016[1]
Selling, general administrative expenses	$ (3,804)	$ (3,464)	$ (7,814)	$ (7,746)
Share based compensation	(350)	-	(659)	-
Amortization expense	(745)	(751)	(1,488)	(1,532)
Depreciation expense	(91)	(144)	(172)	(289)
Loss from long-term investments	-	(3)	-	(294)
Interest expense	(5,056)	(4,528)	(9,982)	(10,566)
Impairment of goodwill and intangible assets	-	-		(8,700)
Gain (loss) from assets held for sale	(515)	-	(392)	1,114
Restructuring costs	(167)	-	(444)	-
Loss on sale of property, plant and equipment	-	-	-	(2)
Income tax recovery - deferred	(2)	-	(2)	-
Loss from continuing operations	$ (10,730)	$ (8,890)	$ (20,953)	$ (28,015)

[1]Certain figures in the comparative period have been reclassified to conform to the current period presentation.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses were $3,804 and $7,814 for the three and six months ended June 30, 2017 compared to $3,464 and $7,746 for the same periods in the prior year. SG&A costs in 2016 were reduced by a workers' compensation board ("WCB") surplus rebate of approximately $950 that was received in the second quarter of 2016. A rebate has not yet been received in 2017 as the WCB program in Alberta is currently under review. When adjusting for this WCB surplus rebate, SG&A costs decreased by 14% and 10% for the three and six months ended June 30, 2017, respectively. Cost reductions are due to cost cutting initiatives implemented throughout 2015 and 2016 that have been fully realized in 2017. The largest cost decreases for the Corporate division relate to reductions in the number of employees.

Other

During the first quarter of 2017, ClearStream issued share based compensation to certain employees of the Company. Total stock based compensation expense recognized for the three and six months ended June 30, 2017 was $350 and $659.

Restructuring costs related to the head office transition and one-time internal reorganization expenses for the three and six months ended June 30, 2017 were $167 and $444.

The loss from assets held for sale recognized in 2017 reflects the impact of changes in the discount rate and probability factor based on the financial results of Titan Supply LP in the first year of the earn-out period. This change in estimate was partially offset by gains relating to the accretion of the earn-out assets for Gusgo Transport LP and Titan Supply LP.

Discontinued Operations

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Loss from discontinued operations	- (1,887)	(1,325)	(2,257)	(6,050)

The loss from discontinued operations is due to changes in the value of the Quantum Murray earn-out asset combined with expenses that the Company continues to incur relating to Quantum Murray. 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. The year-over-year increase for the three months ended June 30, 2017 is due primarily to a loss on the earn-out asset, which was caused by changes in the discount rate and probability factor based on the financial results of Quantum Murray in the first year of the earn-out period. For the six months ended June 30, 2017, the loss from discontinued operations has decreased as the 2016 loss includes the operating losses of Quantum Murray prior the sale on March 23, 2017 as well as costs associated with disposal of discontinued operations.

Liquidity and Capital Resources

For the three and six months ended June 30, 2017, the Company incurred a net loss of $3,397 and $7,390, and had a shareholders' deficit of $110,389 at June 30, 2017. During 2016, ClearStream successfully obtained amendments to the terms of its ABL Facility, which allowed it to remain in compliance with its covenants throughout the year. However, there is a risk that the Company will not meet forecasted expectations and therefore breach financial covenants during the next twelve months.

ClearStream is carefully monitoring its results and continues to take actions to mitigate the risk of a covenant breach, including reductions to operating and capital expenditures. The Company believes that it has a good relationship with its lenders and that, in the event that it concludes that a financial covenant would not be met, it could seek and receive future amendments to its covenants. It cannot be guaranteed that such amendment will be required or requested and similarly there can be no guarantee that such amendment would be received from the Company's lenders or that the conditions of such amendment could be fulfilled by the Company. In the event that an amendment was not received, the cross-default provisions in the senior secured debenture and convertible secured debenture would be triggered, requiring payment on demand. The possibility that a financial covenant may not be met results in a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Cash Flow

The following table summarizes the major consolidated cash flow components:

Six months ended June 30,	2017	2016
Cash (used in) provided by operating activities	$ (31,305)	$ 1,674
Cash provided by investing activities	550	14,435
Cash provided by (used in) financing activities	19,252	(32,879)
Consolidated cash	$ -	$ 7,639

Operating Activities

Six months ended June 30,	2017	2016
Cash used in continuing operations	$ (1,429)	$ (12,655)
Changes in non-cash balances		
Accounts receivable	(34,249)	27,401
Inventories	(1,747)	(339)
Prepaids and other current assets	(174)	(1,813)
Accounts payable, accrued liabilities and deferred revenue	7,235	(10,920)
Other liability	(16)	-
Increase (decrease) in cash due to changes in non-cash balances	(28,951)	14,329
Cash used in discontinued operations	(925)	-
Cash (used in) provided by operating activities	$ (31,305)	$ 1,674

Cash used in operating activities during the first six months of 2017 consists largely of the net loss for the period combined with an increase in working capital of $28,951. The rise in working capital is consistent with the increase in operating activity relative to the comparative period. Cash used in discontinued operations consists primarily of insurance, legal and administrative costs associated with discontinued operations.

Investing Activities

Six months ended June 30,	2017	2016
Purchase of property, plant and equipment, net of disposals	(2,353)	(795)
Net proceeds on disposal of properly, plant & equipment	2,960	455
Purchase of software	(57)	(25)
Proceeds on disposition of business	-	14,800
Cash provided by investing activities	$ 550	$ 14,435

The purchase of the property, plant and equipment in 2017 was primarily related to equipment and tools required to service new and existing maintenance contracts. Proceeds on disposal of property, plant and equipment relates largely to the sale of two non-essential properties during the first quarter of 2017.

Financing Activities

Six months ended June 30,		2017		2016
Decrease in cash held in trust	$	-	$	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)		-		(9,925)
Increase in bank indebtedness		2,979		-
Repayment of capital lease obligations		(1,977)		(2,619)
Advance on ABL facility		18,250		-
Cash provided by (used in) financing activities	$	19,252	$	(32,879)

ClearStream repaid $1,977 of capital lease obligations during the first six months of 2017. In addition, an advance of $18,250 was drawn on the Asset Based Lending ("ABL") facility to fund working capital needs during the second quarter. Most of the cash used in financing activities during the first six months of 2016 was the net result of the refinancing initiatives that took place in the prior year.

Capital Structure and Sources of Funding

ClearStream will utilize the ABL Facility to fund working capital requirements, primarily in the second and third quarters of each year. The services provided by ClearStream are labour intensive. Employees are remunerated either weekly or every two weeks and clients typically pay invoices in 60 to 90 days. During peak business activity, a higher number of employees are at customer sites, and this increases the need for working capital funding.

ClearStream will continue to look to reduce its debt leverage. The debenture arrangements are designed to ensure that debt balances are reduced as quickly as possible. Consequently, 75% of excess cash flow is required to retire the senior secured debentures.

Critical Accounting Policies and Estimates

ClearStream prepares its consolidated financial statements in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the consolidated financial statements, including use of estimates and judgements, are described in note 1 in the December 31, 2016 consolidated financial statements.

New standards, interpretations and amendments adopted by the Company

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the Company's Annual Financial Statements.

New standards and interpretations not yet adopted

There are no updates to new standards and interpretations not yet adopted. For further discussion, refer to ClearStream's MD&A dated March 6, 2017 for the year ended December 31, 2016.

Summary of Quarterly Results
($000s except unit amounts)

	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Revenues	$ 111,559	$ 77,689	$ 72,913	$ 67,773	$ 61,335	$ 68,640	$ 88,956	$ 116,662
Cost of Revenues - Direct	(96,315)	(66,740)	(59,871)	(55,488)	(50,208)	(56,477)	(73,352)	(91,384)
Cost of Revenues - Indirect	(4,171)	(4,409)	(5,737)	(5,461)	(5,662)	(6,847)	(6,978)	(6,871)
Gross Margin	11,073	6,540	7,305	6,824	5,465	5,316	8,626	18,407
Gross Margin %	9.9%	8.4%	10.0%	10.1%	8.9%	7.7%	9.7%	15.8%
Net (loss) income from continuing operations	(1,510)	(3,623)	(6,829)	(4,625)	(5,391)	(16,092)	(68,859)	3,675
Net (loss) income	(3,397)	(3,993)	(12,858)	(5,339)	(6,716)	(20,817)	(107,848)	(6,350)
Income (loss) per share from continuing operations	(0.01)	(0.03)	(0.06)	(0.04)	(0.05)	(0.15)	(0.63)	0.03
Income (loss) per share	(0.03)	(0.04)	(0.12)	(0.05)	(0.06)	(0.19)	(0.98)	(0.06)

ClearStream's revenues are somewhat seasonal, in particular for the Maintenance and Construction segment. Typically there are scheduled shutdown turnaround projects in the spring and fall which increases revenues over and above the standard maintenance and operational support services.

Gross margin percentage fluctuations by quarter are usually a function of revenue mix. Notwithstanding, the first quarter of each year will usually show lower gross margin percentages as the employer portion of payroll benefit costs will not be maximized until later in the year.

The gross margin reductions that began in the fourth quarter of 2015 are reflective of a decrease in business volumes and price reductions granted to customers as a result of decreased oil and gas prices. In addition, ClearStream's revenue was negatively impacted in the second and third quarters of 2016 as a result of the impact of the Fort McMurray wildfires on ClearStream's business.

Transactions with Related Parties

Ownership

As of June 30, 2017, directors, officers and employees beneficially hold an aggregate of 15,988,338 common shares or 14.5% on a fully diluted basis.

Transactions

Two operating leases for property, with quarterly rents of $78 and $75 are with a landlord in which certain executives of ClearStream hold an indirect minority interest (2016 - $78 and $75). These transactions occurred in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties.

Share Capital

The authorized share capital of the Company consists of: (i) an unlimited number of common shares, and (ii) preferred shares issuable in series to be limited in number to an amount equal to not more than one half of the issued and outstanding common shares at the time of issuance of such preferred shares. As of the date hereof, there were 109,941,241 common shares issued and outstanding, nil preferred shares issued and outstanding, 6,560,000 stock options outstanding, and 4,070,000 performance share units outstanding.

Outlook

ClearStream expects continued improvements to the financial results for the third quarter of 2017 compared to the third quarter of 2016. The improvements are expected to be a result of higher demand for services combined with lower year-over-year fixed costs. Higher demand is being driven by modest improvements in oil and gas prices, and increased spending on critical maintenance programs in 2017 compared to 2016. The cost control initiatives that were implemented in 2015 and 2016 are expected to be fully realized for the remainder of 2017, consistent with the cost reductions that have occurred in 2017 year-to-date.

Despite expectations for improved financial results in 2017, ClearStream's service industry is expected to remain competitive for the remainder of 2017. Maintenance spending continues to be cautiously managed by our customers and new infrastructure projects within the western Canadian oil and gas industry are not expected to increase until a substantial increase in commodity prices occurs. As a result of this challenging operating environment, ClearStream will continue to focus on cost control, customer retention, and process and efficiency improvements.

Risk Factors

There are no updates to ClearStream's risk factors. For further discussion, refer to ClearStream's MD&A or AIF dated March 6, 2017 for the year ended December 31, 2016.

Disclosure Controls & Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures

National Instrument 51-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 51-109"), issued by the CSA requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining the disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

ClearStream's management, including its CEO and CFO, have evaluated the effectiveness of ClearStream's disclosure controls and procedures as at December 31, 2016 and have concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by ClearStream in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended. The CEO and CFO have certified the appropriateness of the financial disclosures in ClearStream's filings for the quarter ended June 30, 2017 with securities regulators, including this MD&A and the accompanying audited consolidated financial statements and that they are responsible for the design of the disclosure controls and procedures.

Internal control over financial reporting

NI 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and that the issuer has disclosed any changes in its internal controls during its most recent year end that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended June 30, 2017 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

Due to the inherent limitations common to all control systems, management acknowledges that disclosure controls and procedures and internal control over financial reporting may not prevent or detect all misstatements. Accordingly, management's evaluation of our disclosure controls and procedures and internal control over financial reporting provide reasonable, not absolute, assurance that misstatements resulting from fraud or error will be detected.

Additional Information

Additional information relating to ClearStream including ClearStream's AIF is on SEDAR at www.sedar.com or on our website www.ClearStreamEnergy.ca

Condensed Consolidated Interim Financial Statements of

Clearstream Energy Services Inc.

Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

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

As at	June 30, 2017	December 31, 2016
Cash	$ -	$ 11,503
Restricted cash	980	980
Accounts receivable (note 10)	81,177	46,928
Inventories	4,747	3,000
Prepaid expenses and other	2,234	2,060
Earn-out assets (note 3)	1,476	1,608
Total current assets	90,614	66,079
Property, plant and equipment, net (note 4)	24,024	24,745
Goodwill and intangible assets	36,417	38,088
Earn-out assets (note 3)	2,464	4,056
Long-term investments	709	579
Deferred financing costs (note 5)	1,007	1,295
Total assets	**$ 155,235**	**$ 134,842**
Bank indebtedness	$ 2,979	$ -
Accounts payable and accrued liabilities	34,107	26,848
Deferred revenue	143	167
Current portion of obligations under finance leases	3,028	3,902
Other liability (note 9)	4,969	4,985
Total current liabilities	45,226	35,902
ABL facility (note 5)	21,750	3,500
Obligations under finance leases	2,206	2,915
Senior secured debentures (note 5)	171,813	171,642
Convertible secured debentures (note 5)	24,629	24,397
Total liabilities	265,624	238,356
Shareholders' deficit	(110,389)	(103,514)
Total liabilities and shareholders' deficit	**$ 155,235**	**$ 134,842**

The accompanying notes are an integral part of these consolidated financial statements.

CLEARSTREAM ENERGY SERVICES INC.
Consolidated Interim 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,	
	2017	2016	2017	2016
Revenue	$ 111,559	$ 61,335	$ 189,248	$ 129,975
Cost of revenue	(100,486)	(55,870)	(171,635)	(119,194)
Gross profit	11,073	5,465	17,613	10,781
Selling, general and administrative expenses (note 6)	(4,395)	(4,002)	(8,923)	(8,955)
Share based compensation (note 8)	(350)	-	(659)	-
Amortization of intangible assets	(864)	(901)	(1,727)	(1,802)
Depreciation (note 4)	(1,358)	(1,586)	(2,589)	(3,134)
Income (loss) from equity investment	93	80	130	(155)
Interest expense	(5,186)	(4,704)	(10,218)	(10,945)
Gain (loss) on sale of assets held for sale	(515)	-	(392)	1,114
Restructuring costs	(167)	-	(444)	-
Impairment of goodwill and intangible assets	-	-	-	(8,700)
Gain on sale of property, plant and equipment	161	277	2,078	332
Loss before taxes	(1,508)	(5,371)	(5,131)	(21,464)
Income tax expense - current	(2)	(20)	(2)	(19)
Loss from continuing operations	(1,510)	(5,391)	(5,133)	(21,483)
	-			
Loss from discontinued operations (net of taxes) (note 2)	(1,887)	(1,325)	(2,257)	(6,050)
Net loss and comprehensive loss	$ (3,397)	$ (6,716)	$ (7,390)	$ (27,533)
Loss per share (note 7)				
Basic & diluted:				
Continuing operations	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.20)
Discontinued operations	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.06)
Net loss	$ (0.03)	$ (0.06)	$ (0.07)	$ (0.25)

The accompanying notes are an integral part of these consolidated financial statements.

CLEARSTREAM ENERGY SERVICES INC.
Consolidated Interim Statements of Shareholders' Deficit
(In thousands of Canadian dollars, except per share amounts)
(unaudited)

	Number of shares	Share Capital	Deficit	Contributed Surplus	Total Shareholders' Deficit
Balance - December 31, 2016	109,941,241	$ 469,030	$ (574,971)	$ 2,427	$ (103,514)
Net loss	-	-	(7,390)	-	(7,390)
Share based compensation (note 8)	-	-	-	515	515
Balance - June 30, 2017	109,941,241	$ 469,030	$ (582,361)	$ 2,942	$ (110,389)

	Number of shares	Share Capital	Deficit	Contributed Surplus	Total Shareholders' Deficit
Balance - December 31, 2015	109,941,241	$ 461,758	$ (529,241)	$ 2,427	$ (65,056)
Net loss	-	-	(27,533)	-	(27,533)
Equity component of the convertible debentures	-	7,272	-	-	7,272
Balance - June 30, 2016	109,941,241	$ 469,030	$ (556,774)	$ 2,427	$ (85,317)

The accompanying notes are an integral part of these consolidated financial statements.

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

Six months ended		June 30, 2017		June 30, 2016
Operating activities:				
Net loss for the period	$	(7,390)	$	(27,533)
Loss from discontinued operations (net of income tax)		2,257		6,050
Items not affecting cash:				
Share based compensation (note 8)		514		-
Amortization of intangible assets		1,727		1,802
Depreciation (note 4)		2,589		3,134
(Income) loss from equity investments		(130)		155
Accretion expense (note 5)		402		1,968
Amortization of deferred financing costs (note 5)		288		144
Impairment of goodwill and intangible assets		-		8,700
(Gain) loss on sale of assets held for sale		392		(1,114)
Gain on sale of property, plant and equipment		(2,078)		(332)
Changes in non-cash working capital		(28,951)		14,661
Advances to discontinued operations		-		(5,961)
Cash used in discontinued operations (note 2)		(925)		-
Total cash (used in) provided by operating activities	$	(31,305)	$	1,674
Investing activities:				
Purchase of property, plant and equipment (note 4)		(2,353)		(795)
Net proceeds on disposal of property, plant and equipment (note 4)		2,960		455
Purchase of intangible assets		(57)		(25)
Proceeds on the disposition of businesses (note 2)		-		14,800
Total cash provided by investing activities	$	550	$	14,435
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)		-		(9,925)
Increase in bank indebtedness		2,979		-
Advance on ABL facility		18,250		-
Repayment of obligations under finance leases		(1,977)		(2,619)
Total cash provided by (used in) financing activities	$	19,252	$	(32,879)
Decrease in cash		(11,503)		(16,770)
Cash, beginning of the period		11,503		24,409
Cash, end of period	$	-	$	7,639
Supplemental cash flow information:				
Interest paid		9,430		9,140
Supplemental disclosure of non-cash financing and investing activities:				
Acquisition of property, plant and equipment through finance leases		394		379

The accompanying notes are an integral part of these consolidated financial statements.

CLEARSTREAM ENERGY SERVICES INC.
Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except per share amounts)
For the three and six months ended June 30, 2017 and 2016
(unaudited)

ClearStream Energy Services Inc. ("ClearStream" or the "Company") is a corporation formed pursuant to the Business Corporations Act (Ontario). The head office is located in Calgary, Alberta. ClearStream is a fully-integrated provider of midstream production services, which includes maintenance and turnarounds, facilities construction, welding and fabrication, and transportation, with locations across Western Canada.

The consolidated interim financial statements were authorized for issuance in accordance with a resolution of the Board of Directors of ClearStream on August 3, 2017.

The Maintenance and Construction services segment's revenues and profits are impacted by seasonality. Peak business activity for this segment is typically highest during the second and third quarters when spring and fall facility shutdowns take place.

1. Significant accounting policies

a) Basis of Presentation

These condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Financial Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

These interim financial statements have been prepared on a historical cost basis and presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

Certain amounts in previous periods' financial statements have been reclassified to conform to the current period's financial statements presentation.

b) Going Concern Uncertainty

The interim financial statements have been prepared on a going concern basis. The going concern basis assumes the Company will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the three and six months ended June 30, 2017, the Company incurred a net loss of $3,397 and $7,390, respectively, and had a shareholders' deficit of $110,389 at June 30, 2017. The Company's operations continue to feel the effects of weak economic conditions in Alberta. During 2016, ClearStream successfully obtained amendments to the terms of its ABL Facility, which allowed it to remain in compliance with its covenants throughout the year. The Company's expects to remain in compliance with all financial covenants based on current forecasts; however, there is a risk that the Company will not meet forecasted expectations and therefore breach financial covenants during the next twelve months.

ClearStream is carefully monitoring its results and continues to take actions to mitigate the risk of a covenant breach, including reductions to operating and capital expenditures. The Company believes that it has a good relationship with its lenders and that, in the event that it concludes that a financial covenant would not be met, it could seek and receive future amendments to its covenants. It cannot be guaranteed that such amendment will be required or requested and similarly there can be no guarantee that such amendment would be received from the Company's lenders or that the conditions of such amendment could be fulfilled by the Company. In the event that an amendment was not received, the cross-default provisions in the senior secured debenture and convertible secured debenture would be triggered, requiring payment on demand. The possibility that a financial covenant may not be met results in a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

2. Assets Held for Sale and Discontinued Operations

On March 7, 2016, ClearStream sold its 80% interest in Gusgo Transport LP ("Gusgo") as well as certain other related subsidiaries for cash proceeds of $4,000, with an additional $2,000 received on May 31, 2016.

On March 23, 2016, ClearStream sold a majority of the net assets of Quantum Murray LP ("Quantum Murray") and Titan Supply LP ("Titan") for cash proceeds of $4,000 and assumption of debt of approximately $3,000, with an additional $4,800 which was received in April 2016.

During the six months ended June 30, 2017, the Company incurred a loss on sale of discontinued operations of $2,257, which reflects continuing costs associated with the disposal of Quantum Murray's assets, as well as accretion and fair value adjustments on the earn-out asset (see Note 3). The continuing costs included legal, consulting and insurance expenses.

The following table shows the revenue and net loss from discontinued operations for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	$ -	$ -	$ -	$ 29,179
Expenses	-	-	-	(30,700)
Loss before taxes	-	-	-	(1,521)
Loss on sale of discontinued operations	(1,887)	(1,325)	(2,257)	(4,529)
Net loss from discontinued operations	$ (1,887)	$ (1,325)	$ (2,257)	$ (6,050)

3. Earn-out assets

a) Gusgo earn-out

As a result of the sale of its 80% interest in Gusgo in March 2016 (Note 2), ClearStream is entitled to an earn-out of approximately $2,000 if a customer of Gusgo exercises its option to renew an existing contract at December 31, 2017 and 2018. The fair value of this earn-out at June 30, 2017 was calculated using a discounted cash flow model assuming that the contract will be renewed (based on historical experience) with the amount to be paid to ClearStream discounted at a rate of 17.5%.

Fair value of Gusgo earn-out		
Upon disposition	$	1,340
Accretion		172
As at December 31, 2016	$	1,512
Accretion		127
As at June 30, 2017	$	1,639

Of the fair value of $1,639 at June 30, 2017, approximately $461 is recorded as current earn-out assets with the remaining $1,178 recorded as non-current. The accretion is recorded as gain on sale of assets held for sale.

b) Quantum Murray and Titan earn-out

As a result of the sale of the majority of the net assets of Quantum Murray and Titan in March 2016 (note 2), ClearStream is entitled to an earn-out of approximately $6,200 if certain pre-determined free cash flow targets are achieved for the years ended March 31, 2017, 2018, and 2019. For the year ended March 31, 2017, the free cash flow targets were not met and no earn-out was received. As a result, the earn-out amount for the first year can instead be earned in either of the years ending March 31, 2018 or 2019 if the free cash flow in 2018 or 2019 exceeds that year's target combined with the target for the year ended March 31, 2017.

The fair value of this earn-out at June 30, 2017 was calculated using a discounted cash flow model with a discount rate of 25% (December 31, 2016 – 30%).

Fair value of Quantum Murray and Titan earn-out		
Upon disposition	$	4,240
Accretion		544
Change in estimates		(628)
As at December 31, 2016	$	4,156
Accretion		433
Change in estimates		(2,288)
As at June 30, 2017	$	2,301

The change in estimates in 2017 resulting in a reduction of fair value of $2,288 reflects the impact of changes in the discount rate and probability factor based on the financial results of Quantum Murray and Titan in the first year of the earn-out period.

As at June 30, 2017, the present value of this earn-out is approximately $2,301, the current portion of which is $1,015 and the remainder of $1,286 is recorded as non-current. The accretion and change in estimates resulting in a reduction in fair value related to Titan of $519 are recorded in gain (loss) on sale of assets held for sale. The accretion and change in estimates resulting in a reduction in fair value related to Quantum Murray of $1,336 are recorded in loss from discontinued operations.

4. Property, plant and equipment

During the six months ended June 30, 2017, the Company acquired assets with a cost of $2,747 (six months ended June 30, 2016 - $1,174), which includes equipment under finance leases of $394 (six months ended June 30, 2016 - $379).

Cost as at January 1, 2017	$	81,918
Additions		2,747
Disposals		(2,592)
Cost as at June 30, 2017	$	82,073
Accumulated depreciation as at January 1, 2017	$	(57,173)
Depreciation		(2,589)
Disposals		1,713
Accumulated depreciation as at June 30, 2017	$	(58,049)
Net book value, January 1, 2017	$	24,745
Net book value, June 30, 2017	$	24,024

As at June 30, 2017, property, plant and equipment included $13,400 (December 31, 2016 - $13,202) that was subject to a general security agreement under the senior secured debentures and the convertible secured debentures.

5. ABL facility and debentures

a) ABL Facility

The ABL Facility is a revolving facility providing for maximum borrowings of up to $60,000 and carries a term of three years beginning March 23, 2016. The amount available to be drawn under the ABL Facility will vary from time to time, based upon a borrowing base determined with reference to the accounts receivable of the Company. The ABL borrowing base as at June 30, 2017 is $16,188. The obligations under the ABL Facility are secured by, among other things, a first ranking lien on all of the existing and after acquired accounts receivable and inventories of the borrower and the other guarantors, being the

Company and certain of its direct and indirect subsidiaries. The ABL Facility contains and provides for certain covenants, such as the maintenance of fixed charge coverage ratios, financial reporting and events of default as are customary in transactions of this nature. The interest rate on the ABL Facility is prime plus 2.5%, increasing to prime plus 4% if the ABL Facility is more than 50% drawn.

As at June 30, 2017, $21,750 (December 31, 2016 - $3,500) was drawn on the ABL Facility. The Company incurred $1,727 in deferred financing fees associated with the ABL Facility in 2016. These costs are being amortized over the term of the facility. As at June 30, 2017, the net unamortized amount of deferred financing costs was $1,007.

As at June 30, 2017, ClearStream was in compliance with its financial covenants under the ABL Facility. The financial covenants applicable under the ABL Facility are as follows:

- ClearStream must meet minimum monthly EBITDA targets from November 2016 to April 2017, inclusive, where EBITDA is defined as net earnings, before depreciation and amortization, interest expense, income tax expense, and stock based compensation;
- ClearStream must maintain a Fixed Charge Coverage Ratio of not less than 1.0:1.0 for each cumulative period beginning May 1, 2017 and ending on the last day of each month (including May) after such date until, and including, March 31, 2018; for the two months ended June 30, 2017, the Company's cumulative Fixed Charge Coverage Ratio was 1.14;
- ClearStream must maintain a Fixed Charge Coverage Ratio of 1.1:1.0 for each twelve month period ending on and after April 30, 2018;
- ClearStream must not expend or become obligated for any capital expenditures in an aggregate amount exceeding $6,500 during any fiscal year.

The Fixed Charge Coverage Ratio is defined as follows:

- EBITDA less cash taxes paid, dividends paid and capital expenditures,
  divided by:
- Debt servicing costs, which is the interest paid or payable on all debt balances for the relevant period (not including the amortization of deferred financing costs and accretion).

b) Senior Secured Debentures

The Senior Secured Debentures bear interest at an annual rate of 8.00% payable semi-annually in arrears on June 30 and December 31 in each year. The maturity date of the Senior Secured Debentures is March 23, 2026. The Senior Secured Debentures are redeemable at the option of the Company and, in certain circumstances, are mandatorily redeemable. The Senior Secured Debentures are secured by first-ranking liens over all of the property of the Company and its guarantor subsidiaries, other than certain limited classes of collateral over which the Company has granted a prior-ranking lien in favour of the ABL Agent which secures the Company's obligations under the ABL Facility. The Senior Secured Debentures provide for certain events of default and covenants of the Company which are customary for transactions of this nature, including financial and reporting covenants and restrictive covenants limiting the ability of the Company and its subsidiaries to make certain distributions and dispositions, incur indebtedness, grant liens and limitations with respect to acquisitions, mergers, investments, non-arm's length transactions, reorganizations and hedging arrangements (subject to certain exceptions).

The Company incurred $4,821 in deferred financing fees associated with the Senior Secured Debentures in 2016. These costs are recorded net of the principal balance of the Senior Secured Debenture and will be accreted over the term of Senior Secured Debentures.

As at		June 30, 2017		December 31, 2016
Principal balance of senior secured debentures	$	176,288	$	176,288
Deferred financing fees, net of accumulated amortization		(4,475)		(4,646)
Senior secured debentures	$	171,813	$	171,642

c) Convertible Secured Debentures

The Convertible Secured Debentures bear interest at an annual rate of 10.00% payable semi-annually in arrears on June 30 and December 31 in each year. The Company may elect to satisfy any interest payment obligation by issuing additional Convertible Secured Debentures which will be subject to the same terms and conditions as previously issued Convertible Secured Debentures. The maturity date of the Convertible Secured Debentures is March 23, 2026. The Company may redeem the Convertible Secured Debentures, in whole or in part from time to time, after March 23, 2021. The Convertible Secured Debentures are convertible into common shares of the Company at an initial conversion price of $0.35 per common share (subject to adjustment in certain circumstances). The Convertible Secured Debentures are secured by liens over all of the property of the Company and its guarantor subsidiaries, other than property over which security has been granted in favour of the ABL Agent in respect of the ABL Facility. The security granted in connection with the Convertible Secured Debentures is subordinate to the security granted in connection with the Senior Secured Debentures. The Convertible Secured Debentures provide for events of default and covenants of the Company which are customary for transactions of this nature substantially similar to the events of default and covenants provided in respect of the Senior Secured Debentures.

The Company incurred $3,708 in deferred financing fees associated with the Convertible Secured Debentures in 2016. These costs are recorded net of the principal balance of the Convertible Secured Debentures and will be accreted over the term of Convertible Secured Debentures.

Debenture issue costs of $861 were allocated to the equity component.

Liability component of convertible secured debentures		
As at March 23, 2016	$	24,024
Accretion		373
As at December 31, 2016	$	24,397
Accretion		232
As at June 30, 2017	$	24,629

6. Selling, general & administrative expenses

	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Salaries & benefits	$ 2,086	$ 1,932	$ 4,471	$ 4,399
Occupancy costs	473	226	963	595
Consulting	228	392	452	702
Travel	405	373	741	730
Repairs & maintenance	119	114	306	299
Office	297	216	544	618
Audit & accounting	210	286	374	472
Insurance	315	339	650	636
Other	262	124	422	504
	$ 4,395	$ 4,002	$ 8,923	$ 8,955

7. Loss per share

The shares issuable under the stock options, performance share units, and convertible secured debentures are the only potentially dilutive units as at June 30, 2017. The following table sets forth the adjustments to the numerator and denominator for fully diluted loss per share:

Three months ended June 30,	2017	2016
Numerator:		
Net loss from continuing operations	(1,510)	(5,391)
Net loss from discontinued operations	(1,887)	(1,325)
Net loss	$ (3,397)	$ (6,716)
Denominator:		
Weighted average number of shares outstanding	109,941	109,941
Effect of dilutive instruments	-	-
Weighted average number of shares outstanding (diluted)	109,941	109,941

Six months ended June 30,	2017	2016
Numerator:		
Net loss from continuing operations	(5,133)	(21,483)
Net loss from discontinued operations	(2,257)	(6,050)
Net loss	$ (7,390)	$ (27,533)
Denominator:		
Weighted average number of shares outstanding	109,941	109,941
Effect of dilutive instruments	-	-
Weighted average number of shares outstanding (diluted)	109,941	109,941

As a result of the net losses incurred in all periods presented, all potentially dilutive securities were anti-dilutive.

8. Share Based Compensation

In addition to the Incentive Option Plan ("IOP") previously approved by the shareholders of ClearStream on November 30, 2009, the Board of Directors approved the Performance Share Unit ("PSU") and Restricted Share Unit ("RSU") Plan on January 31, 2017. The aggregate number of shares that may be acquired upon exercise of all share based compensation granted pursuant to the IOP and PSU/RSU plans shall not exceed 10% of the aggregate number of common shares outstanding.

<u>Stock Options</u>

The Company's IOP allows for the issuance of stock options to employees, consultants and directors of the Company. The options vest based on service requirements over either two-year or three-year periods; the options expire five years from the date of grant. The summary of stock option activity is presented below:

	Number of stock options	Weighted average exercise price
Balance as at January 1, 2017	-	-
Granted on January 31, 2017	6,560,000	0.28
Balance as at June 30, 2017	6,560,000	0.28
Exerciseable as at June 30, 2017	-	-

The options outstanding at June 30, 2017 have a weighted average remaining contractual life of 4.58 years. The fair value of the stock options granted during the six months ended June 30, 2017 of $0.19 per option was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

Risk free interest rate	0.5%
Expected life (months)	48
Estimated volatility of underlying common shares (%)	100.0%
Expected dividend yield	0.0%
Exercise price	0.28
Share price	0.28

Volatility of ClearStream's common shares was estimated using the Company's actual historical volatility as well as the volatility of peer group companies with similar corporate structure, operations and size. For the three and six months ended June 30, 2017, the Company recognized $222 and $370 of stock based compensation expense relating to stock options.

<u>Restricted Share Units</u>

RSUs vest based on service requirements over either two-year or three-year periods and are settled in cash by multiplying the numbers of units with the Company's share price based on the volume weighted-average trading price for the five trading days preceding the vesting date of the award. The fair value of the RSUs is based on the market value of the Company's common shares at the reporting date.

	Number of RSUs
Balance as at January 1, 2017	-
Granted on January 31, 2017	5,510,000
Balance as at June 30, 2017	5,510,000
Exerciseable as at June 30, 2017	-

ClearStream's five day weighted average closing share price at June 30, 2017 was $0.14. The weighted average remaining contractual life of the outstanding RSUs as at June 30, 2017 was 1.9 years. For the three and six months ended June 30, 2017, $41 and $144 of stock based compensation expense was recognized relating to RSUs.

Performance Share Units

PSUs vest based on service requirements over either two-year or three-year periods. The number of PSUs that will vest on the applicable vesting dates is dependent upon both an EBITDA-based performance condition and a market condition based on the Company's share price. PSUs can be settled in cash or equity on the vesting date, at the discretion of the Board of Directors, by multiplying the number of units with the Company's share price based on the volume weighted-average trading price for the five trading days preceding the vesting date of the award.

	Number of PSUs
Balance as at January 1, 2017	-
Granted on January 31, 2017	4,070,000
Balance as at June 30, 2017	4,070,000
Exerciseable as at June 30, 2017	-

The fair value of the PSUs granted during the three and six months ended June 30, 2017 of $0.25 per option was estimated on the date of grant based on the Company's weighted-average five day trading price preceding that date, adjusted for the likelihood of achieving the market condition based on the Company's share price.

The weighted average remaining contractual life of the outstanding PSUs as at June 30, 2017 was 1.9 years.

The number of PSUs estimated to vest is estimated at each reporting date based on management's assessment of the likelihood of achieving the EBITDA-based performance condition. For the three and six months ended June 30, 2017, the Company incurred $87 and $145 of stock based compensation expense relating to PSUs using an estimated likelihood of achieving the EBITDA-based performance condition of 75%.

9. Other liability

On June 12, 2015, Brompton Corp. ("Brompton") served the Company and certain of its affiliates with a Statement of Claim seeking, among other things, indemnification for the Company's 40% share of the Canada Revenue Agency ("CRA")'s notices of reassessment relating to the 2010-2012 taxation years. On July 13, 2015, the Company served its Statement of Defence denying Brompton's allegations and relying on, among other things, a corresponding warranty and indemnity provided by Brompton to ClearStream. Brompton brought a motion for summary judgment, which was heard in August and September 2016. In February 2017, the court granted judgment in favour of Brompton, ruling that the Company is required to indemnify Brompton. The Company appealed the decision to the Court of Appeal. In turn, Brompton cross-appealed the decision with respect to the court's ruling regarding the scope of the Company's obligation to indemnify Brompton for costs and disbursements of the summary judgment motion, but subsequently abandoned its cross-appeal. The hearing of the appeal took place on July 6, 2017, at which time the Court of Appeal dismissed the appeal and upheld the decision to grant judgment in favour of Brompton. The Company agreed to pay Brompton $190 with respect to costs for the motion for summary judgment and $30 with respect to costs for the appeal. The Company accrued $4,985 for the estimated potential liability as at December 31, 2016 with respect to this matter with the corresponding loss recorded in discontinued operations. At June 30, 2017, the liability was adjusted to $4,969 based on the amount owed to Brompton.

10. Risk management

ClearStream's Board of Directors has overall responsibility for the establishment and oversight of ClearStream's risk management framework. ClearStream has exposure to credit risk, customer concentration risk, liquidity risk, and interest rate risk. There were no significant changes to customer concentration risk, liquidity risk, or interest rate risk from December 31, 2016.

i) Credit risk

The company has exposure to credit risk, which is the risk of financial loss to ClearStream if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from ClearStream's accounts receivable. The following table outlines ClearStream's maximum exposure to credit risk:

As at	June 30, 2017	December 31, 2016
Cash	$ -	$ 11,503
Restricted cash	980	980
Accounts receivable	81,177	46,928
Earn-out assets	3,940	5,664
Total	$ 86,097	$ 65,075

Cash and restricted cash are held at Canadian Schedule A Banks and therefore are considered low credit risk.

ClearStream has a credit policy under which each new customer is analyzed individually for creditworthiness before standard payment terms and conditions are offered. ClearStream's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. When available, ClearStream reviews credit bureau ratings, bank accounts and financial information for each new customer. ClearStream's customers are primarily multinational oil and gas and construction companies, all of which have strong creditworthiness.

Of the total balance of accounts receivable at June 30, 2017, $50,960 (December 31, 2016 - $31,072) related to trade receivables and $30,542 (December 31, 2016 - $15,856) related to accrued revenue (i.e. for work performed but not yet invoiced).

Trade receivables are non-interest bearing and generally due on 30-90 day terms. As at June 30, 2017, $3,524 (December 31, 2016 - $5,620) of ClearStream's trade receivables had been outstanding longer than 90 days. Management has fully evaluated the outstanding balance of trade receivables and believes that it is collectable based on settlement agreements or ongoing discussions with counterparties.

Earn-out financial assets will be payable to ClearStream by two counterparties if specified conditions are met through 2017 to 2019. Although the two counterparties are private entities, ClearStream continues to evaluate the potential for credit risk based on publicly available information and through ongoing discussions with the management of those entities.

11. Related party disclosures

Two operating leases for property, with quarterly rents of $78 and $75 are with a landlord in which certain executives of ClearStream hold an indirect minority interest (2016 - $78 and $75). These transactions occurred in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties.

12. Segmented information

ClearStream has three reportable operating segments, each of which has separate operational management and management reporting information. All or substantially all of ClearStream's operations, assets and employees are located in Canada.

The Maintenance and Construction division is a fully integrated provider of maintenance and construction services to the energy industry. This division provides maintenance services, welding, fabrication, machining, construction, turnaround services and a resource/labour supply to companies in the conventional oil and gas and oilsands markets.

The Wear, Fabrication and Transportation division specializes in the supply, fabrication and transportation of overlay pipe spools, pipe bends, wear plate, welding services, custom fabrication, pipe management and storage services.

The Corporate division is a standard head office function which deals with strategic planning, corporate communications, taxes, legal, marketing, finance, financing (including interest expense), human resources and information technology for the entire organization.

The Eliminations column includes adjustments required to account for joint ventures as equity investments, and eliminations of interdivisional eliminations. ClearStream accounts for intersegment sales based on transaction price.

The figures in the Maintenance and Construction segment and the Elimination column have been reclassified for the comparative period to conform with the presentation of the current period.

Three months ended June 30, 2017	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Revenues	93,638	18,460	-	(539)	111,559
Cost of revenues	(85,791)	(15,234)	-	539	(100,486)
Gross profit	7,847	3,226	-	-	11,073
Selling, general and administrative expenses	(437)	(154)	(3,804)	-	(4,395)
Share based compensation	-	-	(350)	-	(350)
Amortization of intangible assets	(46)	(73)	(745)	-	(864)
Depreciation	(683)	(584)	(91)	-	(1,358)
Income from equity investment	93	-	-	-	93
Interest expense	(77)	(53)	(5,056)	-	(5,186)
Gain from assets held for sale	-	-	(515)	-	(515)
Impairment of goodwill	-	-	(167)	-	(167)
Gain on sale of property, plant and equipment	50	111	-	-	161
Income (loss) before taxes	6,747	2,473	(10,728)	-	(1,508)
Income tax expense - current	-	-	(2)	-	(2)
Income (loss) from continuing operations	6,747	2,473	(10,730)	-	(1,510)

Three months ended June 30, 2016	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Revenues	50,081	11,450	-	(196)	61,335
Cost of revenues	(46,121)	(9,945)	-	196	(55,870)
Gross profit	3,960	1,505	-	-	5,465
Selling, general and administrative expenses	(415)	(123)	(3,464)	-	(4,002)
Amortization of intangible assets	(78)	(72)	(751)	-	(901)
Depreciation	(716)	(726)	(144)	-	(1,586)
Income from equity investment	80	-	-	-	80
Interest expense	(94)	(82)	(4,528)	-	(4,704)
Gain on sale of property, plant and equipment	220	57	-	-	277
Income (loss) from continuing operations	2,957	559	(8,887)	-	(5,371)
Income tax expense - current	(32)	-	51	(39)	(20)
Income (loss) from continuing operations	2,925	559	(8,836)	(39)	(5,391)

Six months ended June 30, 2017	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Revenues	152,846	37,356	-	(954)	189,248
Cost of revenues	(142,561)	(30,028)	-	954	(171,635)
Gross profit	10,285	7,328	-	-	17,613
Selling, general and administrative expenses	(772)	(337)	(7,814)	-	(8,923)
Share based compensation	-	-	(659)	-	(659)
Amortization of intangible assets	(93)	(146)	(1,488)	-	(1,727)
Depreciation	(1,246)	(1,171)	(172)	-	(2,589)
Income from equity investment	130	-	-	-	130
Interest expense	(127)	(109)	(9,982)	-	(10,218)
Gain from assets held for sale	-	-	(392)	-	(392)
Restructuring costs	-	-	(444)	-	(444)
Gain on sale of property, plant and equipment	1,966	112	-	-	2,078
Income (loss) before taxes	10,143	5,677	(20,951)	-	(5,131)
Income tax expense - current	-	-	(2)	-	(2)
Income (loss) from continuing operations	10,143	5,677	(20,953)	-	(5,133)

Six months ended June 30, 2016	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Revenues	104,733	26,120	-	(878)	129,975
Cost of revenues	(97,781)	(22,291)	-	878	(119,194)
Gross profit	6,952	3,829	-	-	10,781
Selling, general and administrative expenses	(891)	(318)	(7,746)	-	(8,955)
Amortization of intangible assets	(126)	(144)	(1,532)	-	(1,802)
Depreciation	(1,410)	(1,435)	(289)	-	(3,134)
Income from equity investment	(155)	-	-	-	(155)
Interest expense	(188)	(191)	(10,566)	-	(10,945)
Gain from assets held for sale	-	-	1,114	-	1,114
Impairment of goodwill	-	-	(8,700)	-	(8,700)
Gain (loss) on sale of property, plant and equipment	272	62	(2)	-	332
Income (loss) before taxes	4,454	1,803	(27,721)	-	(21,464)
Income tax expense - current	(46)	-	(19)	46	(19)
Income (loss) from continuing operations	4,408	1,803	(27,740)	46	(21,483)

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