ClearStream Announces First Quarter 2019

Calgary – May 14, 2019 – ClearStream Energy Services Inc. ("ClearStream" or the "Company", TSX: CSM and CSM.DB.A) today announced its results for the three months ended March 31, 2019.

"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.

First Quarter 2019 HIGHLIGHTS

- Overall demand for ClearStream's services was stable during the first quarter of 2019 as revenue was materially similar to the first quarter of 2018;
- Compared to the first quarter of 2018, Adjusted EBITDAS for the first quarter of 2019 increased as a result of the IFRS 16 implementation, market growth and market share gain in Northeast British Columbia and Northwest Alberta, high utilisation and improved manufacturing efficiencies in our Wear Technology business, partially offset by a reduction in volume and margins in our maintenance activity in Fort McMurray region as well as in our fabrication union business.
- ClearStream continued to protect and grow market share in the first quarter of 2019. ClearStream has not lost any significant contracts over the past three years, which demonstrates our continued focus on client service and operational execution;
- As part of our strategic plan for diversity and inclusion, and to capture the growth in Fort St. John and Northeast British Columbia, ClearStream entered into a formal joint venture with Blueberry River First Nations (BRFN) on February 13, 2019. The new formed JV will create value for both parties by leveraging our common strengths to become the leading industrial provider of asset integrity services in Northeastern British Columbia.
- As part of its growth initiatives in 2019, the Company has announced that, subsequent to March 31, 2019, that one of its wholly owned subsidiaries ClearStream Energy Holdings LP ("Holdings") had entered into two strategic acquisitions. An Asset Purchase Agreement to acquire certain assets of the production services division currently operated by AECOM Production Services Ltd. and its affiliates was signed on April 29, 2019 by Holdings (the "AECOM Transaction"). Concurrent with the AECOM Transaction, Holdings has also signed on the same day a Share Purchase Agreement to acquire to acquire all of the issued and outstanding shares of Universal Weld Overlays Inc. (the "UWO Transaction" and, together with the AECOM Transaction, the "Transactions"). Subject to obtaining certain approvals under the Company's existing debt arrangements, the Company expects to finance the Transactions through a combination of equity financings and, with respect to the AECOM Transaction, a new debt facility from the Business Development Bank of Canada. The Transactions are expected to close in the second quarter of 2019, subject to the receipt of certain regulatory approvals, applicable approvals under the Company's existing debt arrangements and the satisfaction of other customary closing conditions in respect of each Transaction. The Transactions are expected to complement existing service lines in addition to adding new service lines as well as provide access to new clients to further broaden our business opportunities. Combined, the Transactions are expected to significantly expand our operations in Canada and the United States.

OVERVIEW OF FINANCIAL RESULTS

($ millions, except per share amounts)	Q1 2019	Q1 2018
Revenue	84.0	84.8
Gross profit	8.7	6.8
Selling, general & administrative expenses	(5.2)	(4.7)
Adjusted EBITDAS	3.8	2.2
Loss from continuing operations	(4.2)	(3.5)
Loss per share from continuing operations, basic and diluted	(0.04)	(0.03)

Q1 2019 RESULTS COMMENTARY

Revenues for the three months ended March 31, 2019 were $84 compared to $84.8 for the same period in 2018, a decrease of 1%. This is driven by reduced demand and lower revenue in the Fort McMurray region and the fabrication businesses, partially offset by an increase in Wear Technology as well as non-union maintenance and turnaround service activities.

Excluding IFRS 16 implementation, gross margins remained flat despite the slight drop in revenue. Lower volumes than anticipated led to losses in our union maintenance, turnaround and fabrication businesses, which were offset by higher activity in our non-union maintenance, turnaround and wear businesses, resulting in a more favorable sales mix.

Selling, general and administrative ("SG&A") costs for the three months ended March 31, 2019 were $5.1, in comparison to $4.7 in 2018. SG&A costs were up by $0.5 in 2019 relative to 2018 due largely to increased transition costs including but not limited to professional fees incurred in the Company growth initiatives. SG&A costs include one-time expenses related to transition expenses incurred on the two strategic acquisitions to be closed in second quarter of 2019, as well as other expenses to support business process improvements designed to increase operational effectiveness and lower operating costs going forward.

Adjusted EBITDAS for the three months ended March 31, 2019 was $3.8, an increase of $1.6 compared to 2018, largely due to IFRS 16 implementation, as well as an increase in Wear and non-union maintenance businesses margins partially offset by above mentioned increased SG&A costs.

Restructuring costs of $0.061 were recorded during the three month ended March 31, 2019, in comparison to $0.060 in 2018. These non-recurring restructuring costs are comprised of severance and location closure costs.

The loss from continuing operations was $4.2 for the three months ended March 31, 2019, in comparison to $3.5 in 2018.

Segment Review

MAINTENANCE AND CONSTRUCTION SERVICES

($ millions, except per share amounts)	Q1 2019	Q1 2018
Revenue	66.9	69.3
Gross profit	4.2	3.7
Selling, general & administrative expenses	(0.2)	(0.3)
Adjusted EBITDAS	4.0	3.5
Income from continuing operations	2.1	2.1

REVENUES

Revenues for the Maintenance and Construction Services segment were $66.9 for the three months ended March 31, 2019 compared to $69.3 in the prior year, which reflects a decrease of 3%. This decrease is largely due to reduced maintenance demand in the Fort McMurray union business.

GROSS PROFIT

Gross profit was $4.2 for the three months ended March 31, 2019, compared to $3.7 in 2018. Gross profit margins increased by 1.0% despite the drop in revenue, largely due to improved sales mix in open shop maintenance business as well as IFRS 16 implementation.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Maintenance and Construction segment were $0.2 for the three months ended March 31 2019 compared to $0.3 in 2018. SG&A expenses decreased on a year over year basis mainly due to reductions in headcount and discretionary spending which started late in 2018.

WEAR AND FABRICATION SERVICES

($ millions, except per share amounts)	Q1 2019	Q1 2018
Revenue	17.0	15.5
Gross profit	4.5	3.1
Selling, general & administrative expenses	(0.4)	(0.1)
Adjusted EBITDAS	4.1	3.0
Income from continuing operations	3.1	3.3

REVENUES

Revenues for Wear and Fabrication business continues to show robust results in the three months ended March 31, 2019 compared to same period of last year. Revenues for the three months March 31, 2019 were $17, compared to $15.5 in 2018. The increase in revenue was largely due to overall increase in Wear Technology demand. In addition, AFX acquisition completed in third quarter of 2018 added additional 30%

capacity, which significantly contributed to such increase in revenue. This is offset by decrease in fabrication division due to lower demand in 2019.

GROSS PROFIT

Gross profit was $4.5 for the three months ended March 31, 2019, compared to $3.1 in 2018. The increase in margin was largely due to an overall increase in Wear Technology demand leading to higher utilization and improved manufacturing efficiencies. Gross profit margins of 26.5% for the three months ended March 31, 2019, compared to 20% in 2018. This increase is largely due to operational efficiencies compared to 2018 as well as IFRS 16 implementation

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Fabrication and Wear Technology segment for the three months ended March 31, 2019 increased compared to the prior period due to additional costs to support increased revenue and the implementation of operational efficiencies initiated in late of 2018 and early of 2019.

CORPORATE

($ millions, except per share amounts)	Q1 2019	Q1 2018
Selling, general & administrative expenses	(4.6)	(4.3)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses were $4.6 for the three months ended March 31, 2019 compared to $4.3 in 2018. SG&A costs increased due to higher legal, consulting and people costs, incurred to support the Company growth initiatives, business process improvement initiatives designed to increase operational effectiveness and lower operating costs. Included in SG&A costs are $0.2 in one-time expenses, which include costs related to the two strategic acquisitions expected to be closed in the second quarter of 2019 and other growth initiatives. As a percentage of consolidated revenue, Corporate SG&A costs is 5.4% for the three months ended March 31, 2019 compared to 5.1% in 2018.

Impact of IFRS 16 – Leases on EBITDAS

Effective January 1, 2019, the company has adopted IFRS 16 in its financial statements. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company has applied IFRS 16 using the modified retrospective method and therefore the comparative information has not been restated and continues to be reported under IAS 17. Under IFRS 16, lease costs are reflected on the statement of loss and comprehensive loss for the three months ended March 31, 2019 through depreciation and interest expense, resulting in an increase to EBITDAS.

The modified retrospective method resulted in a one-time adjustment of a $41.2 million addition of right-of-use assets and lease liabilities with no changes in retained earnings on January 1, 2019. During Q1 2019, the Company made payments of $2.58 million related to its lease obligations and recorded right of use asset depreciation and lease interest charges of 0.93 million and $1.9million, respectively. As a result of the new lease standard, EBITDAS was positively impacted by $2.3 million.

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 and capital expenditures).

($ millions, except per share amounts)	Q1 2019	Q1 2018
Cash provided (used in) by operating activities	4.61	(11.23)
Total cash provided by investing activities	(0.12)	2.25
Total cash provided by financing activities	(13.10)	4.33
Consolidated cash	2.23	(1.69)

OPERATING ACTIVITIES

Cash provided by continuing operations represents the net loss incurred during the three months ended March 31, 2019 adjusted for interest and non-cash items, including depreciation, amortization and asset impairments.

INVESTING ACTIVITIES

Cash inflows related to investment activities consist of proceeds of $0.085 from the disposal of certain assets. These proceeds were offset partially by purchase of assets during the three month ended March 31, 2019 for $0.036.

Due to challenging market conditions, capital spending was kept to a minimum and non-essential operating assets were sold during the three months ended March 31, 2019.

Subsequent event

a- 2019 potential Acquisitions

On April 30, 2019, the Company announced that Holdings had entered into the AECOM Transaction, pursuant to which it will acquire certain assets of the production services division currently operated by AECOM Production Services Ltd. and certain of its affiliates for a purchase price of $18.2 million for the assets and approximately $20 million for the working capital, subject to certain closing adjustments. Concurrent with the AECOM Transaction, Holdings also entered into the UWO Transaction, pursuant to which it will acquire all of the issued and outstanding shares of Universal Weld Overlays Inc. for a purchase price of approximately $12 million to be paid on closing, subject to deferred consideration and earn-out adjustments for an aggregate purchase price of up to $15.3 million. The Transactions are expected to close in the second quarter of 2019, subject to the receipt of certain regulatory approvals, applicable approvals under the Company's existing debt arrangements and the satisfaction of other customary closing conditions in respect of each Transaction. Subject to obtaining certain approvals under the Company's existing debt arrangements, the Company expects to finance the Transactions through a combination of equity financings of series 2 preferred shares issued on a prospectus exempt basis to Canso Investment Counsel Ltd., in its capacity as portfolio manager for and on behalf of certain accounts that it manages, and with respect to the AECOM Transaction, a new debt facility from the Business Development Bank of Canada. The Transactions, while entered into concurrently, are not cross-conditional.

b- ABL facility renewal

On May 14, 2019, the second amended and restated credit agreement dated November 2, 2019 between Holdings, as borrower, and (among others) Bank of Montreal, as administrative agent, was further amended to (among other things) extend the maturity date to March 23, 2020 and provide for certain borrowing base and financial covenant amendments.

Outlook

Overall market conditions have started to show some recovery with the rise in commodity prices. However, in light of commodity pricing volatility, upstream, mid-stream and downstream companies are likely to maintain spending discipline for capital projects and focus instead on operational efficiencies and asset integrity. As a result, an increase in demand for our maintenance, turnaround, wear and environmental service lines services is expected to continue in 2019 and 2020.

Improving market conditions for maintenance and turnaround demand, combined with the successful integration of the two recently announced acquisitions, are expected to result in an increase in 2019 profitability compared to 2018.

About ClearStream Energy Services Inc.

ClearStream is a fully integrated provider of upstream, midstream and refinery production services, which includes facility maintenance and turnarounds, pipeline wear technology, facilities construction, welding and fabrication, and transportation to the energy and other industries in Western Canada. For more information about ClearStream, please visit www.ClearStreamEnergy.ca.

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

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

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

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

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