

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)

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

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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,		Six months ended June 30,	
	2017	2016	2017	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

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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).

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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 ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

- 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

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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,		Six months ended June 30,	
	2017	2016	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:

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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.

Stock Options

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:

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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.

Restricted Share Units

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

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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:

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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.

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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)

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Three months ended June 30, 2016					
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					
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)

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

(unaudited)

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)