CERF Incorporated Announces 2016 First Quarter Results

CALGARY, ALBERTA – May 26, 2016: CERF Incorporated (the "Company" or "CERF") (TSX VENTURE: CFL) today announced its financial and operating results for the three months ended March 31, 2016.

HIGHLIGHTS

Amounts in the following tables are presented in thousands of dollars, except for per share amounts and percentages.

	Three months ended March 31	
(in $ 000s)	**2016**	**2015**
Revenue	8,540	17,660
Gross margin	883	4,592
Adjusted EBITDA [1,2]	1,132	5,687
Adjusted EBIT [1,2]	(1,914)	2,851
Net (loss) income per share		
Basic	($0.11)	$0.03
Diluted	($0.11)	$0.03
Dividends paid per share	$0.00	$0.06

[1] See Financial Measures Reconciliations below, [2] Adjusted for severances and business acquisition costs

SELECT FINANCIAL RESULTS

- On February 2, 2016, the Company acquired all the outstanding common and preferred shares of Zedcor Oilfield Rentals Ltd., a private oilfield equipment rental company with operations in Western Canada. This transaction added premier equipment rental assets with an average age of approximately three years and expanded the Company's geographic footprint and customer base. The acquisition was financed through a combination of the issuance of $4.9 million common and preferred shares, the payout of $12.8 million in debt and the issuance of a subordinated vendor take-back note with a fair value of $3.7 million.
- Revenues for the quarter ended March 31, 2016 decreased by $9.2 million or 52% from $17.7 million to $8.5 million compared to the same quarter in 2015. The impact of lower drilling activity resulted in Energy Services revenue to decrease by $7.6 million or 84% which was offset with the additional $1.3 million revenue from the Zedcor Oilfield Rentals Ltd. acquisition. General Rentals revenue decrease of $2.6 million accounting for the remaining reduction.
- Net loss for the quarter ended March 31, 2016 was $4.1 million, down $5.3 million or 4.3 times from an income of $1.2 million from the same period in 2015. The decrease in net income was largely driven by the decrease in quarter over quarter revenue and a $5.2 million impairment of tangible assets was recognized in the period.
- As a result of low utilization, the Company identified certain under-utilized rental equipment in the Energy Services segment to be held for sale. These assets have a net realizable value of $3.7 million after an impairment of $5.2 million was recognized.
- Adjusted EBITDA for the quarter ended March 31, 2016 decreased by $4.6 million or 80% from $5.7 million in the same quarter in 2015 to $1.1 million in the current period. Energy Services adjusted EBITDA decreased by $3.4 million or 87% and General Rentals adjusted EBITDA decreased by $1.8 million or 85% quarter over quarter. Waste Management maintained consistent adjusted EBITDA compared to the same quarter in 2015.

SELECT OPERATING RESULTS

Waste Management Division – 34% of CERF 2015 revenue

The Waste Management segment has reliably maintained its steady revenue streams and positive margins from its long-term landfill and facilities management agreements. The additional two long-term contracts awarded in the current quarter will continue to solidify the Waste Management segment's cash flow contribution to the Company.

However, weak market conditions in Alberta have resulted in decreased waste volumes and commercial and residential collections. The Waste Management

segment's revenue decreased by $0.2 million or 5% compared to the same quarter in 2015 due to the reduced volumes. Gross margins of $0.3 million in the current period decreased slightly from the three months ended March 31, 2015 due to the slight revenue reduction as direct costs and equipment depreciation essentially remained consistent quarter over quarter.

General Rentals Division – 27% of CERF 2015 revenue

The effects of the economic downturn from continued low commodity prices have negatively impacted the broader rental industry. In addition, excess idle equipment from existing competitors and the entry of new competitors into the Alberta market have increased the rental equipment supply and placed downward pressure on pricing. A warmer than normal winter has also reduced utilization of the General Rentals equipment fleet, in particular the Company's ground heater fleet. The combination of these factors caused the General Rentals segment revenue to decrease by $2.2 million or 54% compared to the same quarter in 2015.

Gross margin decreased by $1.1 million or 83% from the reduced revenue, however, the Company's cost cutting measures during the decline in activity helped to sustain a moderate gross margin percentage of 47%, excluding depreciation, in the current period compared to 54% for the three months ended March 31, 2015. The General Rentals segment continues to closely monitor its cost structure and competitors' activities to preserve its margin and customer base.

Energy Services Division – 39% of CERF 2015 revenue

For the quarter ended March 31, 2016, Energy Services revenue of $2.0 million, excluding revenue from the Zedcor acquisition, declined by $7.6 million or 79% compared to the same period in 2015. Gross margin of negative $0.4 million, excluding Zedcor, decreased $3.1 million or 86% compared to the three months ended March 31, 2015.

Energy Services management initiated active cost rationalization during 2015 to mitigate the anticipated revenue reduction, resulting in improved gross margin percentage, excluding depreciation, of 56% in the current period compared to 48% for the three months ended March 31, 2015. Depreciation of equipment remained the same quarter over quarter at $1.5 million.

The Zedcor acquisition proved to be accretive, generating $1.3 million in revenue and contributing $0.6 million gross margin to the Energy Services segment. The Company benefited from Zedcor's best in class rental equipment fleet and strong operations to maintain its customer base during the current market downturn.

OUTLOOK

The uncertain and challenging economic environment experienced in 2015 due to the decline and instability of commodity prices continues in 2016 and currently shows no sign of reversing. This environment has caused CERF's customers to reduce their 2016 capital expenditure programs and delay investment decisions which have directly impacted the utilization and day rates of equipment in CERF's Energy Services and General Rentals segments.

In response to this reality, management continues to actively manage costs and refine the strategy to ensure maximum equipment utilization. In the first quarter of 2016, management reduced headcount, including many senior positions, reduced labor hours, consolidated operating facilities and made reductions in discretionary spending to align the cost structure to the level of activity currently experienced. Management expects activity levels for Energy Services to remain low until such time that commodity prices stabilize at a level that results in increased producer spending.

CERF's operational performance, service quality and best-in-class equipment rental fleet are instrumental to maintain and grow its market share. Management believes the meaningful actions taken in the first quarter of 2016 have positioned the company to weather the current oilfield services downturn and maintain the Company's strong customer base and reputation.

The recent wildfires in Fort McMurray, Alberta and the subsequent rebuilding efforts that will take place may provide opportunities for the Company to deploy certain assets for use in the rebuilding activities. Management is actively exploring areas where it can supply lodging, power and lighting as it has done previously, through the Energy Services and General Rentals segments, for the 2013 flood in Calgary and High River, Alberta and the 2011 wildfire in Slave Lake, Alberta.

The Waste Management segment continues to provide steady cash flows from its several government-owned waste facility contracts. The economic downturn however has had a negative impact, albeit minimal, on disposal volumes for both municipal waste and soil tonnage levels. The volume decrease is being closely monitored by management to ensure progressive measures are taken to mitigate any potential profit erosion. Management had expected a modest decline in commercial and new residential collections given the current economic environment, but the addition of a major collections contract in the first quarter of 2016 and earlier than anticipated spring conditions have resulted in increased volumes to offset these reductions.

With a largely new management team in place, the Company is expanding its market reach and customer base from beyond its traditional energy services and general commercial customers to new industry segments including industrial facilities and pipeline construction. This will lead to more diversity in its revenue streams and increase the utilization of existing rental equipment by penetrating new market segments that are less affected by the current economic downturn.

SELECTED QUARTERLY FINANCIAL INFORMATION

(in $ 000s)	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014	Sept 30 2014	June 30 2014
Revenue	8,540	8,829	10,686	9,292	17,660	20,522	15,006	10,014
Net income (loss)	(4,102)	(16,689)	(12,639)	(1,966)	1,242	2,036	1,293	257
Adjusted EBITDA[1]	1,131	649	2,991	1,273	5,687	6,861	5,039	2,602
Adjusted EBITDA per share								
– basic[1] ($)	0.03	0.00	0.08	0.03	0.15	0.19	0.20	0.16

Net income (loss) per share								
Basic ($)	(0.11)	(0.46)	(0.35)	(0.05)	0.03	0.06	0.05	0.02
Diluted ($)	(0.11)	(0.46)	(0.35)	(0.05)	0.03	0.06	0.05	0.02
Dividend per share ($)	—	0.02	0.02	0.06	0.06	0.06	0.06	0.06
Adjusted free cash flow [1]	3,014	422	3,423	685	4,017	4,031	3,385	667
Dividend declared	—	728	727	2,178	2,175	2,173	2,130	1,055
Annualized payout ratio[1]	n/a	59%	55%	53%	65%	72%	76%	65%

1 See Financial Measures Reconciliations below

LIQUIDITY AND CAPITAL RESOURCES

On April 28, 2016, the Company's Syndicated Bank Credit Facility was amended under the Third Amending Agreement to amend the Debt to EBITDA and Interest Coverage ratios as follows.

Third Amending Agreement	Mar 31 2016	June 30 2016	Sept 30 2016	Dec 31 2016	Mar 31 2017	Thereafter
Debt/EBITDA	5.75:1	5.50:1	5.50:1	4.00:1	3.50:1	3.00:1
Interest Coverage	3.25:1	3.25:1	2.50:1	2.75:1	3.25:1	3.50:1

NON-IFRS MEASURES RECONCILIATION

CERF uses certain measures in this MD&A which do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS"). These measures which are derived from information reported in the consolidated statements of operations and comprehensive income may not be comparable to similar measures presented by other reporting issuers. These

measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company.
Investors are cautioned that EBITDA, adjusted EBITDA and adjusted EBITDA per share, adjusted free cash flow and payout ratio are not acceptable alternatives to net income or net income per share, a measurement of liquidity, or comparable measures as determined in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA refers to net income before finance costs, income taxes, depreciation, amortization, and gains or losses on disposal of property and equipment. Adjusted EBITDA is calculated as EBITDA before costs associated with business acquisition costs and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities. “Adjusted EBITDA per share – basic” refers to Adjusted EBITDA divided by the weighted average basic number of shares outstanding during the relevant periods.

A reconciliation of net income to Adjusted EBITDA is provided below:

	Three months ended March 31	
(in $000s)	**2016**	**2015**
Net income	(4,102)	1,242
Add:		
Finance costs	652	446
Depreciation	3,052	2,795

Amortization of intangibles	277	501
Impairment of property and equipment	5,152	–
Bargain purchase gain	(2,108)	–
Income taxes	(2,371)	493
EBITDA	552	5,477
Add:		
Stock based compensation	(6)	41
Severance costs	243	153
Business acquisition costs	343	16
Adjusted EBITDA	1,132	5,687

Adjusted EBIT

Adjusted EBIT refers to earnings before interest and finance charges, taxes, amortization and impairment of intangibles and business acquisition costs.

A reconciliation of net income to Adjusted EBIT is provided below:

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(in $000s)	**2016**	**2015**
Net income	(4,102)	1,242
Add:		
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Bargain purchase gain	(2,108)	–
Income taxes	(2,371)	493
Severance costs	243	153
Business acquisition costs	343	16
Adjusted EBIT	(1,914)	2,851

Annualized payout ratio

Annualized payout ratio is a non-IFRS measure and is defined by management as dividends declared in the current and preceding 3 quarters divided by adjusted free cash flow generated in the current and preceding three quarters. Management believes that the payout ratio gives readers an indication of the sustainability of dividends. The payout ratio depends on the adjusted free cash flow and the amount of dividends declared payable.

No Conference Call

No conference call will be held in conjunction with this release. Full details of the Company's financial results, in the form of the condensed consolidated interim financial statements and notes for the three months ended March 31, 2106 and Management's Discussion and Analysis of the results are available on SEDAR at www.sedar.com and on the Company's website at www.cerfcorp.com.

About CERF Incorporated

CERF is a Canadian public corporation with three operating divisions: Energy Services, General Rentals and Waste Management. The Energy Services division is engaged in the rental of surface rentals, downhole equipment and accommodations to the Western Canadian Oil and Gas Industry. The General

Rentals division is engaged in the rental of industrial and construction equipment. And the Waste Management division is engaged in waste facilities management and collections. CERF trades on the TSX Venture Exchange under the symbol “CFL”.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this press release constitute forward-looking statements or forward-looking information, including management’s assessment of expected activity levels continuing through 2016, and expected decrease in demand for rental equipment over the next year as well as forecasted economic measures for the Province of Alberta and oil and natural gas prices and the effect on drilling programs as a result of the decline in oil prices. Forward-looking statements or information may contain statements with the words “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “propose”, “budget”, “should”, “project”, “would have realized’, “may have been” or similar words suggesting future outcomes or expectations. Although the Company believes that the expectations implied in such forward-looking statements or information are reasonable, undue reliance should not be placed on these forward-looking statements because the Company can give no assurance that such statements will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of assumptions about the future and uncertainties. These assumptions include that demand for industrial rental equipment, will remain relatively constant or grow marginally through 2016, that the economic downturn caused by the low oil price environment will not affect the performance of the waste management segment, that the Company’s proactive cost cutting measures currently being implemented will protect future margins and that the Company’s diverse operations will protect against profound down swings in the economic environment. Although management believes these assumptions are reasonable, there can be no assurance that they will be proved to be correct, and actual results will differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. The forward-looking statements or information contained in this press release are made as of the date hereof and the Company assumes no obligation to update publicly or revise any forward-looking statements or information,

whether as a result of new contrary information, future events or any other reason, unless it is required by any applicable securities laws. The forward-looking statements or information contained in this press release are expressly qualified by this cautionary statement.

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