



THIRD QUARTER  
MD&A

2020



*Helping Customers Bring Resources to Our World.*

## Management's Discussion and Analysis

November 5, 2020

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, balance sheets and cash flows of ClearStream Energy Services Inc. ("ClearStream" or the "Company") for the three and nine months ended September 30, 2020 and 2019. This MD&A should be read in conjunction with ClearStream's condensed consolidated interim unaudited financial statements and the notes thereto for the three and nine months ended September 30, 2020 and 2019 and the consolidated audited financial statements and the notes thereto for the years ended December 31, 2019 and 2018.

All amounts in this MD&A are in Canadian dollars and expressed in thousands of dollars unless otherwise noted. The accompanying condensed interim consolidated unaudited financial statements of ClearStream 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 November 5, 2020 and is current to that date unless otherwise indicated.

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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 "Advisory regarding Forward-Looking Information" and "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 three segments listed 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 mainly located in Canada with some activity in the United States through Universal Weld Overlays Inc. 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 as well as abandonment, decommissioning, and reclamation services.
Wear Technology Overlay Services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate.
Corporate	Head office management, administrative, legal and interest expenses.

Note: Certain amounts in the previous periods presented herein have been reclassified from the prior year to conform to the current period presentation. The Environmental Services division has been included in the Maintenance and Construction Services segment; the financial results for this division were not significant to overall financial results for this segment during the three and nine months ended September 30, 2020.

**Advisory regarding Forward-Looking Information**

Certain information included in this MD&A may constitute “forward-looking information” within the meaning of Canadian 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. Specifically, this MD&A contains forward-looking information relating to: our business plans, strategies and objectives; the effects of the COVID-19 pandemic on global commerce and oil prices; that the COVID-19 outbreak and other market conditions will have longer term impacts on our activity levels and margins; that we will see the full benefit of the adjustments to our cost structure over the remainder of 2020; that the consolidation of our wear technology overlay facilities has improved our production flexibility and reduced our fixed costs; the receipt of the Canada Emergency Wage Subsidy; the sufficiency of our cash flow from operations and available credit facilities to meet our short-term contractual obligations and maintain compliance with our financial covenants through September 30, 2021; the effect of known claims and litigation on our financial position and results of operations; that the macro-economic environment will remain volatile with limited visibility for energy consumption to return to normal levels in the next few quarters; that energy companies will continue to carefully manage capital spending for capital projects and operations; that our customers will focus on improving their operational processes; and that we are well-positioned to consolidate further multiple services while generating efficiencies and cost reductions for our customers.

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, but not limited to, the success of our response to the COVID-19 global pandemic, risks related to the integration of acquired businesses, conditions of capital markets, economic conditions, commodity prices, dependence on key personnel, interest rates, regulatory change, ability to meet working capital requirements and capital expenditure needs, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. Risks and uncertainties about ClearStream's business are more fully discussed in ClearStream's disclosure materials, including its annual information form and management's discussion and analysis of the operating and financial results, filed with the securities regulatory authorities in Canada and available at [www.sedar.com](http://www.sedar.com). 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 consider 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. Forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes.

**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), share-based compensation, and other long-term incentive plans. EBITDAS is used by management and the directors of ClearStream 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 the gain on sale of assets held for sale, impairment of goodwill and intangible assets, restructuring costs, gain on sale of property plant and equipment, recovery of contingent consideration liability, other loss, one time incurred expenses, impairment of right-of-use assets, bargain purchase gain, gain on remeasurement of right-of-use assets, and government subsidies. 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](http://www.sedar.com) or on ClearStream's website at [www.clearstreamenergy.ca](http://www.clearstreamenergy.ca).

**SUMMARY OF RESULTS – CONTINUING OPERATIONS (\$000s)**

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 100,755	\$ 139,534	\$ 308,591	\$ 327,178
Cost of revenue	(90,790)	(123,023)	(283,277)	(290,487)
Gross profit	9,965	16,511	25,314	36,691
Selling, general and administrative expenses	(4,631)	(5,726)	(16,063)	(17,497)
Share-based compensation and other long-term incentive plans recovery (expense)	—	—	1,109	(64)
Amortization of intangible assets	(496)	(154)	(1,329)	(710)
Depreciation expense	(4,168)	(3,741)	(11,146)	(9,893)
(Loss) income from equity investment	(61)	71	128	96
Interest expense	(4,754)	(5,450)	(13,398)	(13,925)
Restructuring expense	(1,090)	(1,087)	(1,487)	(5,531)
Impairment of intangible assets and goodwill	—	—	(5,000)	—
Recovery (impairment) of right-of-use assets	—	362	—	(1,680)
Bargain purchase gain	—	—	—	12,272
Gain on remeasurement of right-of-use assets	—	—	—	127
Gain on sale of property, plant and equipment	15	140	42	247
Income tax recovery - current	—	—	65	—
Income tax recovery - deferred	—	—	—	3,663
Income from government subsidies	14,905	—	23,481	—
Income from continuing operations	9,685	926	1,716	3,795
Add:				
Amortization of intangible assets	496	154	1,329	710
Depreciation expense	4,168	3,741	11,146	9,893
Share-based compensation and other long-term incentive plans (recovery) expense	—	—	(1,109)	64
Interest expense	4,754	5,450	13,398	13,925
Income tax recovery - current	—	—	(65)	—
Income tax recovery - deferred	—	—	—	(3,663)
EBITDAS	19,103	10,272	26,415	24,725
Gain on sale of property, plant and equipment	(15)	(140)	(42)	(247)
Impairment of intangible assets and goodwill	—	—	5,000	—
Restructuring expense	1,090	1,088	1,487	5,531
Income from government subsidies	(14,905)	—	(23,481)	—
One-time incurred expenses	258	—	668	1,617
(Recovery) impairment of right-of-use assets	—	(362)	—	1,680
Bargain purchase gain	—	—	—	(12,272)
Gain on remeasurement of right-of-use assets	—	—	—	(127)
Adjusted EBITDAS	\$ 5,531	\$ 10,858	\$ 10,047	\$ 20,907

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Net income per share (dollars)</b>				
Basic & Diluted:				
Continuing operations	\$ 0.09	\$ 0.01	\$ 0.02	\$ 0.03
Discontinued operations	\$ —	\$ —	\$ —	\$ 0.02
Net income and comprehensive income	\$ 0.09	\$ 0.06	\$ 0.02	\$ 0.05

<b>Selected Balance Sheet Accounts</b>	September 30, 2020	December 31, 2019
Total assets	\$ 226,186	\$ 257,573
ABL facility	41,160	67,442
Senior secured debentures	100,929	96,955
Other secured borrowings	18,036	18,621
Shareholders' deficit	\$ (21,663)	\$ (23,438)

### THIRD QUARTER 2020 RESULTS

Revenues for the three and nine months ended September 30, 2020 were \$100,755 and \$308,591 compared to \$139,534 and \$327,178 for the same periods in 2019, a decrease of 27.8% and 5.7%, respectively. We saw a strong increase in activity levels in the third quarter relative to the first half of 2020 as our customers resumed some maintenance and construction activity that had been previously deferred with the reopening of the economy and increased demand for petroleum and natural gas products. The revenue reduction for the three and nine months ended September 30, 2020, compared to the same periods in 2019, was driven by overall reduced customer spending and the postponement of scheduled maintenance and turnaround activities as a result of volatility in crude oil prices due to macro-economic uncertainty, the economic impact of the COVID-19 pandemic, and potential lack of storage capacity, forcing production shut-ins at various sites in Western Canada.

Gross profit for the three and nine months ended September 30, 2020 were \$9,965 and \$25,314 compared to \$16,511 and \$36,691 for the same periods in 2019, a decrease of 39.6% and 31%, respectively. Gross profit margins for the three and nine months ended September 30, 2020 were 9.9% and 8.2% compared to 11.8% and 11.2% for the same periods in 2019. The decrease for the three and nine months ended September 30, 2020 was due to a reduction in both the total volume and the volume of higher margin work in the Wear Technology Overlay Services segment where certain fixed costs are required to operate the facilities in addition to downward pressure on margins by customers in response to market uncertainty. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins across the whole business, we took immediate steps to adjust our cost structure, for which we will see the full benefit over the remainder of 2020. During the third quarter, we closed ClearStream Wear's locations in Nisku and Edmonton and consolidated all operations into the Sherwood Park location. By eliminating these two facilities, we have significantly improved production flexibility and reduced the fixed costs associated with ClearStream Wear's operations.

Selling, general and administrative ("SG&A") expenses for the three and nine months ended September 30, 2020 were \$4,631 and \$16,063, in comparison to \$5,726 and \$17,497 for the same periods in 2019, a decrease of 19.1% and 8.2%, respectively. As a percentage of revenue, SG&A expenses for the three and nine months ended September 30, 2020 were 4.6% and 5.2% compared to 4.1% and 5.3% for the same periods in 2019. The increase in SG&A expenses as a percentage of revenue in the three months ended September 30, 2020 was due to the decline in revenue resulting from macro-economic uncertainty and the economic impact of the COVID-19 pandemic. Given the market uncertainty, we continued to right size our SG&A cost structures compared to the prior quarter and same period in 2019 as shown by the decrease in SG&A expenses in 2020 compared to the same periods in 2019.

Non-cash items that impacted the 2020 results were depreciation, amortization, and the reversal of share-based compensation and other long-term incentive plans. For the three and nine months ended September 30, 2020, depreciation and amortization expense was \$4,664 and \$12,475 compared to \$3,895 and \$10,603 for the same periods in 2019, an increase of 19.7% and 17.7%, respectively. The increase in depreciation and amortization expense was largely due to the increase in asset values as a result of the acquisition of certain assets of the production services division of AECOM Production Services Ltd. (the "AECOM PSD Business") as well as additional 2020 capital expenditures. Recovery of the share-based compensation and other long-term incentive plans for the nine months ended September 30, 2020 of \$1,109, in comparison to an expense of \$64 for the same period in 2019, represents the change in the net present value of future cash payments expected to be earned under the Cumulative Value Creation Unit Plan. This amount will fluctuate period to period based on management's best estimate of Adjusted EBITDAS over the performance period.

For the three and nine months ended September 30, 2020, interest expenses were \$4,754 and \$13,398 compared to \$5,450 and \$13,925 for the same periods in 2019, a decrease of 12.8% and 3.8%, respectively. These decreases were due to a reduction in amounts drawn on the ABL Facility as a result of the positive impacts of the wage subsidies and the release of working capital from the high revenue levels in the fourth quarter of 2019 and the first quarter of 2020.

Restructuring expense of \$1,090 and \$1,487 was recorded during the three and nine months ended September 30, 2020 compared to \$1,087 and \$5,531 for the same periods in 2019. The non-recurring restructuring expenses in 2019 were related to the acquisition of the AECOM PSD Business as well as termination benefits. The non-recurring restructuring expenses in 2020 were related to cost reduction initiatives in response to changing market conditions.

Impairment of \$5,000 was recorded in the nine months ended September 30, 2020 as a result of the identification of indicators of impairment at March 31, 2020 related to the forecasted impact of the COVID-19 pandemic, which has decreased global demand for oil and gas and resulted in a reduction in long-term commodity price outlooks. Management therefore performed impairment tests as at March 31, 2020 for the Wear and UWO cash-generating units ("CGUs"), both of which are within the Wear Technology Overlay Services segment. This testing resulted in an impairment of the UWO CGU of \$5,000 in the nine months ended September 30, 2020. No impairment was required for the Wear CGU.

Income from government subsidies represents the Canada Emergency Wage Subsidy ("CEWS") received from the Government of Canada to assist with the payment of employee wages as a result of the impact of the COVID-19 pandemic. During the three and nine months ended September 30, 2020, the Company qualified for CEWS and recorded grants of \$14,905 and \$23,481, respectively, in the Consolidated Interim Statements of Income and Comprehensive Income.

Income from continuing operations for the three and nine months ended September 30, 2020 was \$9,685 and \$1,716 compared to \$926 and \$3,795 for the same periods in 2019. The income variances are largely driven by the goodwill impairment loss and decrease to gross profit for the 2020 periods, offset by benefits received from the CEWS, the reversal of the share-based compensation and other long-term incentive plans, and the bargain purchase gain in 2019.

The gain from discontinued operations was \$148 and \$59 for the three and nine months ended September 30, 2020, compared to a loss of \$307 and a gain of \$2,027 for the same periods in 2019. The gain from discontinued operations in the three months ended September 30, 2020 was due to a settlement relating to Quantum Murray. The gain from discontinued operations in the nine months ended September 30, 2019 was due to the Company's share of an income tax reassessment won by Brompton, offset by expenses relating to the sale of businesses prior to March 2018. The Company continues to incur expenses relating to the sale of businesses that it owned prior to March 2018. These expenses consist largely of legal, insurance, and consulting costs relating to Quantum Murray and legal proceedings that existed prior to the sale of the business.

For the three and nine months ended September 30, 2020, Adjusted EBITDAS were \$5,531 and \$10,047 compared to \$10,858 and \$20,907 for the same periods in 2019. As a percentage of revenue, Adjusted EBITDAS were 5.5% and 3.3% for the three and nine months ended September 30, 2020 compared to 7.8% and 6.4% for the same periods in 2019. Adjusted EBITDAS as a percentage of revenue decreased due to gross profit

decreases in both the Maintenance and Construction Services segment and the Wear Technology Overlay Services segment.

## SEGMENT OPERATING RESULTS

### MAINTENANCE AND CONSTRUCTION SERVICES

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 94,687	\$ 126,025	\$ 284,173	\$ 282,251
Cost of revenue	(85,796)	(113,222)	(263,224)	(256,969)
Gross profit	8,891	12,803	20,949	25,282
Selling, general and administrative expenses	(143)	(358)	(544)	(974)
Amortization of intangible assets	(78)	(124)	(183)	(575)
Depreciation expense	(2,513)	(2,055)	(7,045)	(4,444)
(Loss) income from equity investments	(61)	71	128	96
Interest expense	(322)	(128)	(941)	(761)
Restructuring costs	(315)	—	(356)	(368)
(Loss) gain on sale of property, plant and equipment	(9)	139	149	247
Income from government subsidies	12,929	—	20,104	—
Income from continuing operations	18,379	10,348	32,261	18,502
Add:				
Amortization of intangible assets	78	124	183	575
Depreciation expense	2,513	2,055	7,045	4,444
Interest expense	322	128	941	761
EBITDAS	21,292	12,655	40,430	24,283
Loss (gain) on sale of property, plant and equipment	9	(139)	(149)	(247)
Restructuring costs	315	—	356	368
Income from government subsidies	(12,929)	—	(20,104)	—
One-time incurred expenses	81	—	231	—
Adjusted EBITDAS	\$ 8,768	\$ 12,516	\$ 20,764	\$ 24,404

### Revenues

Revenues for the Maintenance and Construction Services segment were \$94,687 and \$284,173 for the three and nine months ended September 30, 2020 compared to \$126,025 and \$282,251 for the same periods in 2019, which reflects a decrease of 24.9% and an increase of 0.7%, respectively. This increase in the nine months ended September 30, 2020 was due to the acquisition of the AECOM PSD Business on June 28, 2019. Acquisition driven revenue increases were partially offset in the three months ended September 30, 2020 by reductions due to customers continuing to reduce spending and postponing a portion of their scheduled maintenance and turnaround activities. These postponements are a result of volatility in crude oil prices due to macro-economic uncertainty, the economic impact of the COVID-19 pandemic, and potential lack of storage capacity, forcing production shut-ins at various sites in Western Canada.

### Gross Profit

Gross profit was \$8,891 and \$20,949 for the three and nine months ended September 30, 2020 compared to \$12,803 and \$25,282 for the same periods in 2019, a decrease of 30.6% and 17.1%, respectively. Gross profit margins were 9.4% and 7.4% for the three and nine months ended September 30, 2020 compared to 10.2% and 9% for the same periods in 2019. The decrease in gross profit margins was due to lower than anticipated volumes

from our maintenance and turnaround business relative to indirect costs to manage this business as well as the downward market pressure on margins by our customers.

### Selling, General and Administrative Expenses

SG&A expenses for the Maintenance and Construction Services segment were \$143 and \$544 for the three and nine months ended September 30, 2020, compared to \$358 and \$974 for the same periods in 2019, a decrease of 60.2% and 44.2%, respectively. The decreases in SG&A expenses were primarily due to the effect of our cost mitigation initiatives in response to lower volumes from market uncertainty.

### WEAR TECHNOLOGY OVERLAY SERVICES

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 6,697	\$ 14,922	\$ 25,842	\$ 48,369
Cost of revenue	(5,623)	(11,214)	(21,477)	(36,960)
Gross profit	1,074	3,708	4,365	11,409
Selling, general and administrative expenses	(136)	(196)	(413)	(492)
Amortization of intangible assets	(418)	(29)	(1,146)	(135)
Depreciation expense	(953)	(1,161)	(2,659)	(3,038)
Interest and foreign exchange expense	(126)	(138)	(261)	(427)
Restructuring (expense) recovery	(23)	—	94	(962)
Impairment of intangible assets and goodwill	—	—	(5,000)	—
Recovery (impairment) of right-of-use assets	—	362	—	(14)
Income from government subsidies	1,078	—	1,890	—
Income (loss) from continuing operations	496	2,546	(3,130)	6,341
Add:				
Amortization of intangible assets	418	29	1,146	135
Depreciation expense	953	1,161	2,659	3,038
Interest expense	126	138	261	427
EBITDAS	1,993	3,874	936	9,941
Impairment of intangible assets and goodwill	—	—	5,000	—
Restructuring expense (recovery)	23	—	(94)	962
Income from government subsidies	(1,078)	—	(1,890)	—
One time incurred expenses	177	—	379	—
(Recovery) impairment of right-of-use assets	—	(362)	—	14
Adjusted EBITDAS	\$ 1,115	\$ 3,512	\$ 4,331	\$ 10,917

### Revenues

Revenues for this segment for the three and nine months ended September 30, 2020 were \$6,697 and \$25,842, compared to \$14,922 and \$48,369 for the same periods in 2019, a decrease of 55.1% and 46.6%, respectively. The decrease in revenue for both periods was due to activity levels for weld technology overlay services remaining well below historical levels as customers scaled back their production output and spending on consumables in response to weak oil prices.

### Gross Profit

Gross profit was \$1,074 and \$4,365 for the three and nine months ended September 30, 2020, compared to \$3,708 and \$11,409 for the same periods in 2019, a decrease of 71% and 61.7%, respectively. Gross profit margins were 16% and 16.9% for the three and nine months ended September 30, 2020 compared to 24.8% and 23.6% for the same periods in 2019. The decrease in gross profit margins was due to increased competition, a higher proportion of lower margin work in our facilities, and the overall decline in volumes with certain fixed costs

remaining steady. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins, we took immediate steps to adjust our cost structure and optimize our overlay manufacturing footprint by consolidating all operations into our facility in Sherwood Park resulting in the closure of the facilities in Edmonton and Nisku during the third quarter of 2020.

### Selling, General and Administrative Expenses

SG&A expenses for the Wear Technology Overlay Services segment were \$136 and \$413 for the three and nine months ended September 30, 2020 compared to \$196 and \$492 for the same periods in 2019, a decrease of 30.8% and 16.0%, respectively.

### CORPORATE

ClearStream's head office functions are located in Calgary, Alberta. The Corporate segment provides typical head office functions, including strategic planning, corporate communications, taxes, legal, marketing, finance, human resources and information technology, for the entire organization. The tables below reflect the costs of ClearStream's corporate function, as well as other corporate overhead expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Selling, general and administrative expenses	\$ (4,352)	\$ (5,172)	\$ (15,106)	\$ (16,030)
Share-based compensation and other long-term incentive plans recovery (expense)	—	—	1,109	(64)
Depreciation expense	(702)	(524)	(1,442)	(2,411)
Interest expense	(4,306)	(5,184)	(12,196)	(12,737)
Restructuring costs	(752)	(1,090)	(1,225)	(4,203)
Impairment of right-of-use assets	—	—	—	(1,666)
Bargain purchase gain	—	—	—	12,272
Gain on remeasurement of right-of-use assets	—	—	—	127
Gain (loss) on sale of property, plant and equipment	24	—	(107)	—
Income tax recovery - current	—	—	65	—
Income tax recovery - deferred	—	—	—	3,663
Income from government subsidies	898	—	1,487	—
Loss from continuing operations	(9,190)	(11,969)	(27,415)	(21,050)
Add:				
Depreciation expense	702	524	1,442	2,411
Share-based compensation and other long-term incentive plans (recovery) expense	—	—	(1,109)	64
Interest expense	4,306	5,184	12,196	12,737
Income tax recovery - current	—	—	(65)	—
Income tax recovery - deferred	—	—	—	(3,663)
EBITDAS	(4,182)	(6,262)	(14,951)	(9,500)
(Gain) loss on sale of property, plant and equipment	(24)	—	107	—
Restructuring costs	752	1,090	1,225	4,203
Income from government subsidies	(898)	—	(1,487)	—
One-time incurred expenses	—	—	58	1,617
Impairment of right-of-use assets	—	—	—	1,666
Bargain purchase gain	—	—	—	(12,272)
Gain on remeasurement of right-of-use assets	—	—	—	(127)
Adjusted EBITDAS	\$ (4,352)	\$ (5,172)	\$ (15,048)	\$ (14,413)

## Selling, General and Administrative Expenses

SG&A expenses were \$4,352 and \$15,106 for the three and nine months ended September 30, 2020 compared to \$5,172 and \$16,030 for the same periods in 2019. SG&A expenses as a percentage of revenue were 4.3% and 4.9% for the three and nine months ended September 30, 2020 compared to 3.7% and 4.9% for the same periods in 2019. This increase in SG&A expenses as a percentage of revenue in the three months ended September 30, 2020 was due to the decline in revenue resulting from macro-economic uncertainty and the economic impact of the COVID-19 pandemic. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins, we took immediate steps to adjust our cost structure as shown by the decrease in SG&A expenses in 2020 compared to the same periods in 2019.

## DISCONTINUED OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Gain (loss) from discontinued operations	\$ 148	\$ (307)	\$ 59	\$ 2,027

The gain from discontinued operations in the three months ended September 30, 2020 was due to a settlement relating to Quantum Murray. The gain from discontinued operations in the nine months ended September 30, 2019 was due to the Company's share of an income tax reassessment won by Brompton, offset by expenses relating to the sale of businesses prior to March 2018. The Company continues to incur expenses relating to the sale of businesses that it owned prior to March 2018. These expenses consist largely of legal, insurance, and consulting costs relating to Quantum Murray and legal proceedings that existed prior to the sale of the business.

## LIQUIDITY AND CAPITAL RESOURCES

For nine months ended September 30,	2020	2019
Cash provided by (used in) operating activities	\$ 54,541	\$ (27,229)
Cash used in investing activities	(1,006)	(55,839)
Cash (used in) provided by financing activities	(33,375)	72,230
Consolidated cash, end of period	\$ 27,269	\$ (10,838)

The Company's liquidity and cash flow provided by operations has been driven by a significant release of working capital as revenues for the three and nine months ended September 30, 2020 declined from the fourth quarter of 2019 and the first quarter of 2020. This was further impacted by internal billing efficiencies realized in 2020 and the receipt of the Canada Emergency Wage Subsidy.

Depending on the severity and duration of the current market pullback, management has stress tested the Company's liquidity position to meet all commitments as well as created various levels of mitigation actions to respond to reductions in revenue.

Based on the current forecast, which assumes the continued receipt of funding available to ClearStream through the Canada Emergency Wage Subsidy program and the extension of the asset-based lending facility past March 2021 on same or similar terms, the Company anticipates having sufficient cash flow from operations and available credit facilities to meet its short-term contractual obligations and to maintain compliance with its financial covenants through September 30, 2021.

The potential impact that COVID-19 will have on our business or financial results cannot be reasonably estimated at this time. As such, any shutdowns requested or mandated by government authorities in response to any further outbreak of COVID-19 may have a material adverse affect on our planned operating activities.

## Investing Activities

Cash outflows related to investment activities during the nine months ended September 30, 2020 consisted of the purchase of assets and an installment payment towards the outstanding deferred consideration liability related to

the acquisition of Universal Weld Overlays Inc., offset partially by proceeds from the disposal of certain assets as well as dividend proceeds from an equity investment.

### Financing Activities

#### a. ABL Facility

The Company established an asset-based lending facility (the "ABL Facility") pursuant to the terms of the Third Amended and Restated Credit Agreement, which is comprised of (i) a revolving credit facility providing for maximum borrowings that range from \$50,000 to \$65,000 depending on the period (the "Revolving Facility") with a syndicate of banks (the "Lenders") and (ii) a term loan facility providing for maximum borrowings of up to \$40,500 (the "Term Loan Facility") with Canso Investment Counsel Ltd., in its capacity as portfolio manager for and on behalf of certain accounts that it manages ("Canso").

Pursuant to an amending agreement dated May 29, 2020, the Lenders and Canso have agreed to amend the ABL Facility to, among other things: (a) provide the option to defer interest owing on amounts drawn on the Revolving Facility at the end of May, June and July 2020 (with any such deferred amounts to be paid on August 31, 2020); (b) defer interest payments on amounts drawn on the Term Loan Facility from May 29, 2020 to March 31, 2021 (with such deferred amounts to be paid on March 31, 2021); (c) waive compliance with the fixed charge coverage ratio covenant for the fiscal quarter ending June 30, 2020; (d) defer the payment of certain fees (with any such deferred amounts to be paid on August 31, 2020); and (e) permit the Payment in Kind Transactions (as defined under Senior Secured Debentures below). Assuming that the amount drawn on the Term Loan Facility remains constant at \$40,500 and based on the current interest rate, the deferred interest payments on the Term Loan Facility from May 29, 2020 to March 31, 2021 will total approximately \$2,345. As of September 30, 2020, interest on the Term Loan Facility of \$938 was deferred and accrued for in the ABL Facility payable balance.

Pursuant to an amending agreement dated March 20, 2020, the ABL Facility was amended to, among other things, adjust the maximum borrowings available under the Revolving Facility to \$65,000 during the period commencing March 1, 2020 and ending September 30, 2020, \$60,000 during the period commencing October 1, 2020 and ending December 31, 2020, and \$50,000 during the period commencing January 1, 2021 and ending on the maturity date of the Revolving Facility. The amending agreement extended the maturity date of the Revolving Facility to March 23, 2021 and the Term Loan Facility to 180 days thereafter. It also amended the financial covenants to replace the quarterly minimum cumulative EBITDA covenant with a quarterly fixed charge coverage ratio covenant.

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at September 30, 2020 was \$43,658 (December 31, 2019 - \$50,000). 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 interest rate on the Revolving Facility is prime plus 2.5%, increasing to prime plus 4.0% if the Revolving Facility is more than 50% drawn.

As at September 30, 2020, \$nil (December 31, 2019 - \$27,825) was drawn on the Revolving Facility, and there were \$3,175 (December 31, 2019 - \$2,930) of letters of credit reducing the amount available to be drawn. As at September 30, 2020, the net unamortized amount of deferred financing costs was \$279 (December 31, 2019 - \$883).

At September 30, 2020, \$40,500 (December 31, 2019 - \$40,500) was outstanding under the Term Loan Facility. The Term Loan Facility is required to be used for specific purposes and cannot be redrawn once repaid. The interest rate on the Term Loan Facility is equal to the interest rate on the Revolving Facility plus 2.0%.

The amended financial covenants applicable under the ABL Facility are as follows:

- The Company must maintain a fixed charge coverage ratio equal to or greater than 1.00:1.00 for each twelve month period calculated and tested as of the last day of each fiscal quarter (commencing March 31, 2020); and

- The Company must not expend or become obligated for any capital expenditures in an aggregate amount exceeding \$6,600 during the period commencing January 1, 2020 and ending December 31, 2020, and any fiscal year thereafter.

At September 30, 2020, ClearStream was in compliance with all financial covenants under the ABL Facility.

b. Other Secured Borrowings

On May 13, 2020, the Company signed an agreement with the Business Development Bank of Canada to postpone all interest payments on the loans for a period of six months with the amount of the deferred interest being payable at the end of the deferral period in twelve equal consecutive monthly installments.

On March 30, 2020, the Company signed an agreement with the Business Development Bank of Canada to postpone effective May 1, 2020 all principal payments on the loans for a period of six months with the postponed payments being added to the end of loan term. As a result, the final payment on the \$13,500 loan will occur on September 2, 2045 and the final payment on the \$5,500 loan will occur on December 28, 2025.

c. Senior Secured Debentures

Canso, in its capacity as portfolio manager for and on behalf of certain accounts that it manages, and as sole holder of the Senior Secured Debentures, agreed to accept the issuance of an additional 3,956 Senior Secured Debentures on June 30, 2020 and 4,114 Senior Secured Debentures on December 31, 2020 at a principal amount of \$1,000 per Senior Secured Debenture in order to satisfy the interest that would otherwise become due and payable on such dates (the "Payment in Kind Transactions"). This will save ClearStream approximately \$7,900 in cash. Following the Payment in Kind Transactions, ClearStream will have approximately \$107,000 principal amount of Senior Secured Debentures outstanding at December 31, 2020.

## 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. Based on the current environment, significant market uncertainty exists that could impact the estimates and assumptions made by the ClearStream. Significant accounting policies and methods used in the preparation of the consolidated financial statements, including use of estimates and judgments, are described in note 1 of the condensed consolidated interim financial statements.

## CONTINGENCIES

Contingencies are provided for when they are likely to occur and can be reasonably estimated. ClearStream is subject to claims and litigation proceedings arising in the normal course of operations. The known claims and litigation proceedings are not expected to materially affect the Company's financial position or reported results of operations.

## SUMMARY OF QUARTERLY RESULTS

(\$000s except unit amounts)

	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2
Revenue	100,755	81,037	126,799	137,066	139,542	103,690	83,954	77,840	85,996	129,702
Gross Profit Margin	9,965	6,030	9,319	15,158	16,127	11,571	8,718	6,169	7,400	6,709
Gross Profit Margin %	9.9 %	7.4 %	7.3 %	11.1 %	11.6 %	11.2 %	10.4 %	7.9 %	8.6 %	5.2 %
Net income (loss) from continuing operations	9,685	1,303	(9,272)	(10,449)	928	7,091	(4,222)	(3,153)	(20,834)	(3,097)
Net income (loss)	9,833	1,299	(9,357)	(10,536)	619	6,785	(1,580)	(2,543)	(20,694)	(3,210)
Net income (loss) per share from continuing operations	0.09	0.01	(0.08)	(0.09)	0.01	0.06	(0.04)	(0.03)	(0.19)	(0.03)
Net income (loss) per share	0.09	0.01	(0.09)	(0.10)	0.01	0.06	(0.01)	(0.02)	(0.19)	(0.03)

ClearStream's revenues are somewhat seasonal, in particular for the Maintenance and Construction Services segment. Typically, there are scheduled shutdown turnaround projects in the spring and fall which increase revenues over and above the standard maintenance and operational support services. In 2020, this trend was disrupted due to the COVID-19 pandemic causing the postponement of scheduled spring shutdown turnaround projects.

## TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2020, directors, officers and key employees beneficially held an aggregate of 11,868,442 common shares or 10.79% of the issued and outstanding common shares. Two leases for properties with quarterly rents of \$78 and \$100 are with a landlord in which certain directors of ClearStream hold an indirect minority interest. 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 at September 30, 2020, the Company's issued and outstanding share capital included 109,992,668 common shares, 127,735 Series 1 preferred shares, and 40,111 Series 2 preferred shares.

As at September 30, 2020, the accrued and unpaid dividends on the Series I and Series II preferred shares totaled \$38,882. Assuming that the holders of the preferred shares exercise the right to convert such accrued and unpaid dividends into additional preferred shares and then convert such preferred shares into common shares, approximately 147,202,000 common shares would be issued, which represents approximately 134% of the common shares outstanding as of September 30, 2020.

## OUTLOOK

With the continuing measures to limit the spread of the virus, including travel restrictions, border closures, quarantines and social distancing, we expect the macro-economic environment to remain volatile with limited visibility for energy consumption to return to normal levels in the next few quarters. Upstream, midstream and

downstream energy companies will continue to carefully manage spending for capital projects and operations where possible until further confidence in market stability has returned.

As with prior downturns in the oil and gas industry, the combined effect of the COVID-19 pandemic and the resulting collapse in world oil prices has tested and proved the resilience of ClearStream's business model. With energy transition and environmental considerations becoming increasingly important for all stakeholders in the energy sector, our customers will focus on improving their operational processes for greater efficiencies and reliability.

ClearStream has continued to add new service offerings that encompass the full asset lifecycle and is now offering a suite of more than 40 services. Through the extensive regional coverage provided by our 15 operating facilities, we believe that ClearStream is well-positioned to consolidate further multiple services required at various operating sites while generating efficiencies and cost reductions for its customers.

## RISK FACTORS

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2019, which is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### COVID-19 Pandemic

The outbreak of the COVID-19 pandemic and its impact on the global economy (including a material reduction in the demand for petroleum products) has impacted the Company's plans and activities by reducing the demand for its services and its gross profit margins. The Company may face disruption to operations, supply chain delays, travel and trade restrictions and the impact on economic activity can be difficult to quantify. Such pandemics or diseases represent a serious threat to maintaining a skilled workforce and could be a major healthcare challenge for the Company. There can be no assurance that the Company's personnel will not be impacted by COVID-19 and ultimately that the Company would see its workforce productivity reduced. In addition, the COVID-19 pandemic has created a dramatic slowdown in both the global and local economy. The duration of the COVID-19 pandemic and the resulting travel restrictions, social distancing, Government response actions, business closures and business disruptions, can all have an impact on the Company's operations and access to capital.

There can be no assurance that the Company will not continue to be impacted by adverse consequences that may be brought about by the COVID-19 pandemic, including an extended period of low commodity prices further reducing the demand for its services and its gross profit margins which in turn will put pressure on its financial liquidity.

The full extent of the risks surrounding the severity and timing of the COVID-19 pandemic are continually evolving and are not fully known at this time; therefore, there is significant risk and uncertainty which may have a material and adverse affect on our operations. The following risks disclosed in our Annual Information Form for the year ended December 31, 2019 may be exacerbated as a result of the COVID-19 pandemic:

- The Company's credit facilities may not provide sufficient liquidity;
- Failure to comply with the covenants in the agreements governing the Company's debt could adversely affect the Company's financial condition;
- The Company's business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile;
- The Company relies on certain key personnel whose absence or loss could disrupt its operations and have a material adverse effect on its business;
- Since a significant portion of the Company's work is in the oil sands sector, the Company's performance is sensitive to factors affecting the oil sands sector, including temporary or permanent shutdown of projects due to downturns in oil and gas prices, natural disasters, mechanical breakdowns, technology failures or pressure from environmental activism;

- The Company may not be able to convert its backlog into revenue and cannot guarantee that the revenues projected in its backlog will be realized or, if realized, will result in profits;
- Cyber attacks and loss of the Company's information and computer systems as its workforce moves to remote connections could adversely affect the Company's business; and
- The Company's business is subject to changes in general economic conditions over which it has little or no control.

## **DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

We are required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". This instrument requires us to disclose in our interim MD&A any weaknesses in or changes to our internal control over financial reporting during the period that may have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We confirm that no such weaknesses were identified in, or changes were made to, internal controls over financial reporting during the three months ended September 30, 2020.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **ADDITIONAL INFORMATION**

Additional information relating to ClearStream is available in our Annual Information Form for the year ended December 31, 2019.



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