ClearStream

THIRD QUARTER
2022

ClearStream Announces Third Quarter 2022 Financial Results

Completes 10 Turnaround Projects and reports quarterly revenues of $172 million

Calgary, Alberta (November 3, 2022) – ClearStream Energy Services Inc. ("ClearStream" or the "Company") (TSX: CSM) today announced its results for the nine months ended September 30, 2022. All amounts are in Canadian dollars and expressed in thousands of dollars unless otherwise noted.

"EBITDAS" and "Adjusted EBITDAS" are not standard measures under IFRS. Please refer to the Advisory regarding Non-Standard Measures at the end of this press release for a description of these items and limitations of their use.

"The high level of activity that we experienced in the second quarter continued in the third quarter as we reported revenues of $171.9 million, largely unchanged from the record set in the second quarter. Revenues for both the three and nine month periods ended September 30, 2022 increased by 58% from the same periods in 2021 as the market recovery from the pandemic lows continued," said Barry Card, Chief Executive Officer.

"In the third quarter, we successfully completed an additional 10 turnaround projects to build and maintain the integrity of our customers' infrastructure. When combined with the second quarter, we completed a total of 30 turnaround projects. We were able to recruit and grow our workforce to over 4,000 employees at the peak, to complete these projects. The commitment of our employees to safety allowed these projects to be delivered on time and with no incidents, representing best in class performance," added Mr. Card.

HIGHLIGHTS

- Revenues for the three months ended September 30, 2022 were $171.9 million, representing an increase of $63.3 million or 58.2% from Q3 2021 and a decrease of $1.3 million or 0.8% from Q2 2022.
- Gross profit for the three months ended September 30, 2022 was $20.6 million, representing an increase of $8.5 million or 70.1% from Q3 2021 and an increase of $4.9 million or 31.3% from Q2 2022.
- Gross profit margin for the three months ended September 30, 2022 was 12.0%, as compared to 11.2% in Q3 2021 and 9.1% in Q2 2022.
- Adjusted EBITDAS for the three months ended September 30, 2022 were $12.4 million, representing an increase of $6.4 million or 107.3% from Q3 2021 and an increase of $4.5 million or 56.6% from Q2 2022.
- Adjusted EBITDAS margin for the three months ended September 30, 2022 was 7.2%, representing an increase of 1.7% from Q3 2021 and an increase of 2.6% from Q2 2022.
- Selling, general and administrative expenses for three months ended September 30, 2022 were $10.0 million, representing an increase of $2.7 million or 36.5% from Q3 2021 and an increase of $0.2 million or 1.8% from Q2 2022. The increase is largely due to our business recovering and stabilizing in 2022, therefore, certain elements of cost reductions in previous years have been reversed in order to support the increased volume of work in 2022. In addition, 2022 expenses are higher than 2021 due to ongoing investments being made to support the Company's enterprise systems and digital strategy to drive longer-term efficiencies and increase our cost competitiveness.
- Liquidity, including cash and available credit facilities, was $21.6 million at September 30, 2022, as compared to $33.7 million at December 31, 2021.
- New contract awards and renewals totaled approximately $350.0 million for the three months ended September 30, 2022 and $12.0 million for the month of October 2022. Approximately 40% of the work is expected to be completed in the next 12 months.

Maintenance and Construction Services

Revenues for the three months ended September 30, 2022 were $159.3 million, representing an increase of $60.0 million or 60.4% from Q3 2021 and a decrease of $0.9 million or 0.6% from Q2 2022. The increase relative to Q3 2021 was due to the completion of an additional 10 turnaround projects in the third quarter, which included two large projects. Gross profit margin for Q3 2022 was 11.2%, an increase of 2.7% from Q2 2022 and 2.0% from Q3 2021. We continue to focus on consolidating various scopes of work with existing or new customers by bundling our services in order to enable more efficient execution and lower costs for our customers on each work site.

Wear Technology Overlay Services

Revenues for the three months ended September 30, 2022 were $14.0 million, representing an increase of $3.5 million or 33.6% from Q3 2021 and a decrease of $0.3 million or 2.2% from Q2 2022. Gross profit margin for Q3 2022 was 19.1%, an increase of 4.5% from Q2 2022 and a decrease of 9.0% from Q3 2021. The decrease relative to Q3 2021 was primarily due to the mix of business, job margins being lower for certain projects and an increase in material costs. With the continued rise in global energy demand and commodity prices, we are seeing our customers in the oil sands operating at full production levels, which has started to increase the demand for our AssetArmor™ products.

Environmental Services

We continue to enhance our professional services capabilities to service our growing customer base in this market segment. Our customers continue to allocate expenditures for the closure, reclamation and remediation of oil and gas wells, pipelines and facilities in Western Canada as they increase their focus on ESG (environmental, social and governance) matters. We expect this trend to continue notwithstanding the expiry of the government-funded programs at the end of 2022.

Corporate

On September 23, 2022, Murray Desrosiers, Senior Vice President and General Counsel, was appointed Senior Vice President, Legal and Corporate Development. In this new role, Murray will be responsible for the coordination and delivery of legal services, insurance, corporate development and strategic planning.

Also on September 23, 2022, Angela Thompson, Vice President, Environmental and Project Services was appointed Vice President, Corporate Services. In this new role, Angela will be responsible for Business Development and Proposals, Marketing and Communications, and will continue to lead Project Services (Project Controls, Estimating, and Supply Chain Management) and Environmental Services.

THIRD QUARTER 2022 FINANCIAL RESULTS

($ millions, except per share amounts)	Three months ended September 30,			Nine months ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Revenue						
Maintenance and Construction Services	159.3	99.4	60.4 %	419.0	260.6	60.8 %
Wear Technology Overlay Services	14.0	10.4	33.6 %	40.6	28.8	40.9 %
Eliminations(1)	(1.4)	(1.2)	20.7 %	(4.7)	(2.0)	134.6 %
Total	171.9	108.6	58.2 %	454.9	287.4	58.3 %
Gross Profit						
Maintenance and Construction Services	17.9	9.2	95.5 %	38.9	22.7	71.8 %
Wear Technology Overlay Services	2.7	2.9	(9.3)%	7.1	8.0	(10.4)%
Total	20.6	12.1	70.1 %	46.1	30.6	50.5 %
Gross Profit Margin (% of revenue)						
Maintenance and Construction Services	11.3 %	9.2 %	2.0 %	9.3 %	8.7 %	0.6 %
Wear Technology Overlay Services	19.1 %	28.2 %	(9.0)%	17.6 %	27.6 %	(10.1)%
Total	12.0 %	11.2 %	0.8 %	10.1 %	10.6 %	(0.5)%
Selling, general and administrative expenses	10.0	7.3	36.5 %	27.8	19.9	40.1 %
% of revenue	5.8 %	6.7 %	(0.9)%	6.1 %	6.9 %	— %
Adjusted EBITDAS(2)						
Maintenance and Construction Services	17.8	9.1	95.2 %	38.6	22.8	69.4 %
Wear Technology Overlay Services	2.6	2.9	(9.4)%	6.9	7.7	(10.7)%
Corporate	(8.0)	(6.0)	33.6 %	(22.2)	(17.8)	(24.3)%
Total	12.4	6.0	107.3 %	23.3	12.7	84.1 %
% of revenue	7.2 %	5.5 %	1.7 %	5.1 %	4.4 %	0.7 %
Income (loss) from continuing operations	1.2	(2.2)	(152.7)%	(7.6)	(9.3)	(18.5)%
Net income (loss) per share (dollars) from continuing operations (basic and diluted)	0.01	(0.02)	(152.7)%	(0.07)	(0.08)	— %

(1) The eliminations includes eliminations of inter-segment transactions. ClearStream accounts for inter-segment sales based on transaction price.

(2) "Adjusted EBITDAS" is not a standard measure under IFRS. Please refer to the Advisory regarding Non-Standard Measures at the end of this press release for a description of this measure and limitations of its use.

Revenues for the three and nine months ended September 30, 2022 were $171,883 and $454,927 compared to $108,647 and $287,447 for the same periods in 2021, representing an increase of 58.2% and 58.3%. The increase in revenue was driven by the strong market momentum in 2022, representing an increase in activity across all areas of the business with the largest increase occurring in the Maintenance and Construction Services segment.

Gross profit for the three and nine months ended September 30, 2022 was $20,617 and $46,059 compared to $12,124 and $30,610 for the same periods of 2021, representing an increase of 70.1% and 50.5%, respectively. Gross profit margin for the three and nine months ended September 30, 2022 was 12.0% and 10.1% compared to 11.2% and 10.6% for the same periods in 2021. The increase in gross profit and gross profit margin was primarily driven by an increase in the volume of work in the Maintenance and Construction Services segment combined with the recovery of the increased costs realized in the business, which have been built into contracts collaboratively with our customers.

Selling, general and administrative ("SG&A") expenses for the three and nine months ended September 30, 2022 were $9,970 and $27,821, in comparison to $7,302 and $19,856 for the same periods in 2021, representing an increase of 36.5% and 40.1%, respectively. As a percentage of revenue, SG&A expenses for the three and nine months ended September 30, 2022 were 5.8% and 6.1% compared to 6.7% and 6.9% for the same periods in 2021. Consistent with the last three quarters of 2021, the increase in SG&A expenses is partially due to the ongoing investments being made to support the Company's enterprise systems and digital strategy. These investments, which will extend throughout 2022, are expected to drive longer-term efficiencies and increase our cost competitiveness. In addition, certain elements of cost reductions in previous years have been reversed in order to support the increased volume of work in 2022.

For the three and nine months ended September 30, 2022, Adjusted EBITDAS was $12,381 and $23,296 compared to $5,973 and $12,653 for the same periods in 2021. As a percentage of revenue, Adjusted EBITDAS was 7.2% and 5.1% for the three and nine months ended September 30, 2022 compared to 5.5% and 4.4% for the same periods in 2021.

Income from government subsidies includes the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") received from the Government of Canada to assist with the payment of employee wages and rent as a result of the impact of the COVID-19 pandemic. The CEWS and CERS programs ended in 2021. Therefore, the Company did not have any income from government subsidies during the three and nine months ended September 30, 2022, compared to $143 and $11,313 for the three and nine months ended September 30, 2021.

Income from continuing operations for the three months ended September 30, 2022 was $1,174 and loss from continuing operations for the nine months ended September 30, 2022 was $7,582 in comparison to losses of $2,227 and $9,300 for the same periods in 2021. The income variance was driven by a significant improvement in gross profit for the Maintenance and Construction Services segment and the impairment of right-of-use assets recognized in 2021, partially offset by the reduction in government subsidies in 2022, an increase in SG&A expenses and an increase in restructuring expenses.

LIQUIDITY AND CAPITAL RESOURCES

On October 5, 2022, ClearStream amended its asset-based revolving credit facility (the “ABL Facility”) with a Canadian charted bank to increase the maximum borrowings available thereunder to $50 million. The amount available under the ABL Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of ClearStream and certain of its subsidiaries. The maturity date of the ABL Facility is April 14, 2025. The expanded ABL Facility will provide additional working capital needed to finance the higher level of activity experienced in 2022.

The Company anticipates that its liquidity (cash on hand and available credit facilities) and cash flow from operations will be sufficient to meet its short-term contractual obligations and maintain compliance with its financial covenants through September 30, 2023.

As at September 30, 2022, issued and outstanding share capital included 110,001,239 common shares, 127,732 Series 1 preferred shares, and 40,111 Series 2 preferred shares.

The Series 1 preferred shares (having an aggregate value of $127.732 million) are convertible at the option of the holder into common shares at a price of $0.35/share and the Series 2 preferred shares (having an aggregate value of $40.111 million) are convertible into common shares at a price of $0.10/share.

The Series 1 and Series 2 preferred shares have a 10% fixed cumulative preferential cash dividend payable when the Company has sufficient monies to be able to do so, including under the provisions of applicable law and contracts affecting the Company. The Board of Directors of the Company does not intend to declare or pay any cash dividends until such times as the Company's balance sheet and liquidity position supports the payment. As at September 30, 2022, the accrued and unpaid dividends on the Series 1 and Series 2 shares totaled $72.4 million. Any accrued and unpaid dividends are convertible in certain circumstances at the option of the holder into additional Series 1 and Series 2 preferred shares.

OUTLOOK

The return of global energy demand and the reality of a multi-year period of upstream oil and natural gas underinvestment has resulted in a shortage of oil and natural gas and higher commodity prices, providing a promising outlook for the services industry. The war in Ukraine and sanctions on Russian hydrocarbons have exacerbated the challenged supply situation and many importing countries are looking for alternative sources of supply, including North America, to fill the gap. At current commodity price levels, we anticipate continued high demand for our services as customers seek to maintain or incrementally grow production levels. However, broad economic concerns exist with respect to inflation, rising interest rates and geopolitical instability, the combination of which may lead to a global recession. These concerns may negatively impact the spending plans of our customers.

Despite some recent weakness, the pricing for commodities in the end markets we serve continues to be strong. While our customers have been prioritizing debt repayment and returns to shareholders, they are starting to increase spending on both maintenance projects (to enhance operational reliability) and capital projects (to maintain or expand production capacity). We expect activity levels to remain strong for the remainder of 2022.

ClearStream's business model continues to prove its resilience as we are working closely with our customers to help them effectively manage their operations. Our organic growth strategy involves cross-selling our suite of more than 40 services that encompass the full asset lifecycle to generate efficiencies and cost reductions for our customers and further expanding our reach into industrial markets. We are also continually working to improve our service delivery to anticipate our customer's requirements and proactively meet their needs.

Additional Information

Our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and the related Management's Discussion and Analysis of the operating and financial results can be accessed on our website at www.clearstreamenergy.ca and will be available shortly through SEDAR at www.sedar.com.

About ClearStream Energy Services Inc.

With a legacy of excellence and experience stretching back more than 50 years, ClearStream provides solutions for the Energy and Industrial markets including: Oil & Gas, Petrochemical, Mining, Power, Agriculture, Forestry, Infrastructure and Water Treatment. With offices strategically located across Canada and a dedicated workforce, we provide maintenance, construction, wear technology and environmental services that keep our clients moving forward. For more information about ClearStream, please visit www.clearstreamenergy.ca or contact:

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Advisory regarding Forward-Looking Information

Certain information included in this Press Release 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. This press release contains forward-looking information relating to: our business plans, strategies and objectives; contract renewals and project awards, including the estimated value thereof and the timing of completing the associated work; that the demand for our AssetArmor™ products will increase as customers increase production levels; that customers will continue to allocate expenditures for the closure, reclamation and remediation of oil and gas wells, pipelines and facilities in Western Canada; that the investments being made to support our enterprise systems and digital strategy will drive longer-term efficiencies and increase our cost competitiveness; the sufficiency of our liquidity and cash flow from operations to meet our short-term contractual obligations and maintain compliance with our financial covenants through September 30, 2023; our dividend policy; the supply/demand fundamentals for oil and natural gas and its impact on the demand for our services; the pricing outlook for commodities in the end markets we serve; that broad economic concerns may negatively impact the spending plans of our customers; that our customers will increase spending on both maintenance and capital projects; and activity levels for the remainder of 2022.

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, compliance with debt covenants, access to credit facilities and other sources of capital for working capital requirements and capital expenditure needs, availability of labour, dependence on key personnel, economic conditions, commodity prices, interest rates, regulatory change, weather and risks related to the integration of acquired businesses. 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. In formulating the forward-looking information, 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 press release, 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.

Advisory regarding Non-Standard Measures

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

EBITDAS refers to net earnings determined in accordance with IFRS, before depreciation and amortization, interest expense, income tax expense (recovery) and long-term incentive plan expenses. 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 its management's discussion and analysis of the operating and financial results for the three and nine months ended September 30, 2022.

Adjusted EBITDAS refers to EBITDAS excluding impairment of goodwill and intangible assets, restructuring expense, gain (loss) on sale of property, plant and equipment, loss of contingent consideration liability, one time incurred expenses, impairment 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 a measure that management believes (i) 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, and (ii) facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors. ClearStream has provided a reconciliation of income (loss) from continuing operations to Adjusted EBITDAS in its management's discussion and analysis of the operating and financial results for the three and nine months ended September 30, 2022.

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 consolidated interim and annual financial statements available on SEDAR at www.sedar.com or on ClearStream’s website at www.clearstreamenergy.ca.