



ClearStream

Third Quarter 2018



*Helping Customers
Bring Resources to Our World*

CLEARSTREAM ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTER ENDED SEPTEMBER 30, 2018

DEAR SHAREHOLDERS

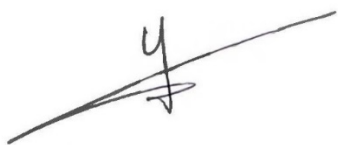
Demand for ClearStream's core services was stable during the third quarter of 2018 as revenue was consistent with the third quarter of 2017. Adjusted EBITDAS also remained stable as pricing pressure was offset by cost efficiencies realized by ClearStream during the quarter. The oil and gas maintenance industry in Canada remains highly competitive as our clients cautiously manage spending in light of oil and gas price differentials in Canada. As a result, pricing levels have declined in 2018 relative to 2017 and have negatively affected gross margins throughout the year. We will continue to focus on cost and efficiency efforts to remain ahead of the competition and maximize gross margins in this challenging environment. Asset utilization, manufacturing efficiencies within the Wear Technology division, and process standardization and centralization across the organization are some of the key initiatives in focus. The full impact of these initiatives is expected to be realized in 2019.

Strategically, ClearStream will continue to focus on growing high margin service lines, which include Wear Technology and Environmental Services. With the recent acquisition of AFX Materials and Fabrication Ltd. ("AFX"), the manufacturing capacity of ClearStream's existing Wear Technology business is expected to increase by 30%. Demand and profitability for Wear Technology services remains strong and this acquisition will allow ClearStream to enhance the client service offering of our Wear Technology division through additional capacity and manufacturing efficiencies. The Environmental services division established in July 2017 continues to develop a strong customer base and reputation for operational execution. Growth for both our Wear Technology and Environmental service lines will be a strategic focus in 2019.

The search for a new Chief Financial Officer ("CFO") is progressing well and an interim solution is in place to ensure a proper transition with the outgoing CFO. We remain excited about ClearStream's growth opportunities, and confident in our ability to recruit a growth-oriented financial executive to fill the CFO position.

Despite the difficult operating environment, ClearStream has renewed all key contracts in 2018 to date and expects to renew all remaining contracts before the end of the year. We continue to have strong long-standing relationships with our tier-one customer base. We will continue to focus on providing safe and high quality services to our customers and are confident that ClearStream can continue to retain market share and grow over the next several years. We also continue to have strong financial support from our key stakeholders as evidenced by the \$10 million term loan obtained on November 2, 2018. Proceeds from this loan will be used to fund growth opportunities, including the recent acquisition of AFX, and general liquidity needs. With the support from our stakeholders and financial partners, combined with our track record of strong operational execution, we are well positioned for growth and stability moving forward.

Thank you for your continued support.



Yves Paletta

Chief Executive Officer

Management's Discussion and Analysis

November 6, 2018

The following is management's discussion and analysis ("MD&A") of the interim results of operations and balance sheet of ClearStream Energy Services Inc. ("ClearStream" or the "Company") for the three and nine months ended September 30, 2018 and 2017. This MD&A should be read in conjunction with ClearStream's condensed interim consolidated financial statements and notes thereto for the three and nine months ended September 30, 2018 and 2017 (the "Interim Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2017 and 2016 (the "Annual Financial Statements").

All amounts in this MD&A are in Canadian dollars and expressed in thousands of dollars unless otherwise noted. The Interim Financial Statements 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 6, 2018 and is current to that date unless otherwise indicated.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Interim Financial Statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

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 "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 reportable segments discussed 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 located entirely in Canada. 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.
Wear, Fabrication and Transportation Services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate, and transportation and pipe logistics services to the drilling sector.
Corporate	ClearStream head office management, administrative, legal and interest expense costs.

Note: The Environmental Services division has been included in the Wear, Fabrication and Transportation Services segment; the financial results for this division were not significant to overall financial results for this segment during the periods ending September 30, 2018.

Forward-looking information

This MD&A contains certain forward-looking information. Certain information included in this MD&A may constitute forward-looking information within the meaning of securities laws. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results and may include statements or information regarding the future plans or prospects of ClearStream and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of ClearStream. Without limitation, information regarding the future operating results and economic performance of ClearStream constitute forward-looking information. Such forward-looking information reflects management's current beliefs and is based on information currently available to management of ClearStream. Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including risks related to investments, conditions of capital markets, economic conditions, commodity prices, dependence on key personnel, limited customer bases, interest rates, regulatory change, ability to meet working capital requirements and capital expenditures needs of the Company, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. In addition, in evaluating this information, investors should specifically consider various factors, including the risks outlined under "Risk Factors," in the company's 2017 Annual Information Form dated February 28, 2018, which may cause actual events or results to differ materially from any forward-looking statement. In formulating forward-looking

information herein, management has assumed that business and economic conditions affecting ClearStream will continue substantially in the ordinary course, including without limitation with respect to general levels of economic activity, regulations, taxes and interest rates. Although the forward-looking information is based on what management of ClearStream considers to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect. This forward-looking information is made as of the date of this 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. ClearStream is providing the forward-looking financial information set out in this MD&A for the purpose of providing investors with some context for the outlook presented. Readers are cautioned that this information may not be appropriate for any other purpose.

Non-standard measures

The terms "EBITDAS" and "Adjusted EBITDAS" (collectively the "Non-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) and stock based compensation. EBITDAS is used by management and the directors of ClearStream (the "Directors") as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDAS to monitor the performance of ClearStream's reportable segments and believes that in addition to net income or loss and cash provided by operating activities, EBITDAS is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures and income taxes. ClearStream has provided a reconciliation of income (loss) from continuing operations to EBITDAS in this MD&A.

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

Third Quarter 2018 Performance

Summary Results (\$000's)

Nine months ended September 30,	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	85,996	85,927	300,492	275,175
Cost of revenues	(78,596)	(79,292)	(279,564)	(250,927)
Gross profit	7,400	6,635	20,928	24,248
Selling, general and administrative expenses	(5,629)	(4,929)	(14,798)	(13,852)
Stock based compensation	12	80	(143)	(579)
Amortization of intangible assets	(751)	(861)	(2,312)	(2,588)
Depreciation	(1,208)	(1,338)	(3,515)	(3,927)
Income (loss) from equity investment	28	30	132	160
Interest expense	(3,037)	(5,470)	(9,501)	(15,688)
Gain on sale of assets held for sale	-	105	757	(287)
Restructuring costs	(43)	(383)	(127)	(827)
Impairment of goodwill and intangible assets	(17,468)	-	(17,468)	-
Gain on sale of property, plant and equipment	211	11	276	2,089
Income tax recovery (expense) - current	156	-	(169)	(2)
Other income (loss)	(55)	-	(529)	-
Net loss from continuing operations	(20,384)	(6,120)	(26,469)	(11,253)
Add:				
Amortization	751	861	2,312	2,588
Depreciation	1,208	1,338	3,515	3,927
Stock based compensation	(12)	(80)	143	579
Interest expense	3,037	5,470	9,501	15,688
Income tax expense - current	(156)	-	169	2
EBITDAS	(15,557)	1,469	(10,829)	11,531
Gain on assets held for sale	-	(105)	(757)	287
Gain on sale of property, plant and equipment	(211)	(11)	(276)	(2,089)
Impairment of goodwill and intangible assets	17,468	-	17,468	-
Restructuring costs	43	383	127	827
Other income (loss)	55	-	529	-
One-Time incurred expenses	282	-	282	-
Adjusted EBITDAS	2,081	1,736	6,544	10,556

Selected Balance Sheet Accounts

As at	September 30, 2018	December 31, 2017
Total assets	\$ 118,978	\$ 132,643
ABL facility	32,500	27,500
Senior secured debentures	96,688	171,988
Convertible secured debentures	975	24,999
Shareholders' deficit	(53,857)	(138,888)

Third Quarter 2018 results

Revenues for the three and nine months ended September 30, 2018 were \$85,996 and \$300,492, compared to \$85,927 and \$275,175 for the same periods in 2017. Demand for ClearStream's services was stable compared to the third quarter of 2017. On a year-to-date basis, revenue is up by 9% due to an increase in facility turnaround demand. This increase was partially offset by the reduction in transportation revenue as this division was sold at the end of 2017.

Gross profit for the three and nine months ended September 30, 2018 was \$7,400 and \$20,928, compared to \$6,635 and \$24,248 for the same periods in 2017. Gross margins were 8.6% and 7.0% compared to 7.7% and 8.8% for the same periods in 2017. For the three months ended September 30, 2018, gross margins improved due to a favorable change in sales mix as more revenue was generated from the higher margin Wear Technology division. For the nine months ended September 30, 2018, gross margins declined on a year-over-year basis as a larger proportion of revenue was earned using union based employees, particularly in the second quarter, which is lower margin work due to the high cost of labour associated with this service offering.

Selling, general and administrative ("SG&A") costs for the three and nine months ended September 30, 2018 were \$5,629 and \$14,798, compared to \$4,929 and \$13,852 for the same periods in 2017. SG&A expenses increased during the third quarter of 2018 due to an increase in legal and consulting costs combined with higher people costs. Included in third quarter SG&A costs are \$282 in one-time expenses, which include costs related to the acquisition of AFX.

For the three and nine months ended September 30, 2018, adjusted EBITDAS was \$2,081 and \$6,544, compared to \$1,736 and \$10,556 for the same periods in 2017. Adjusted EBITDAS for the nine months ended September 30, 2018, is down due to lower gross margins in the first and second quarters of 2018.

Depreciation and amortization expense was \$1,959 and \$5,827 for the three and nine months ended September 30, 2018, compared to \$2,199 and \$6,515 for the same periods in 2017. The decreases were due to a reduction in depreciable assets during 2018.

For the three and nine months ended September 30, 2018, interest costs were \$3,037 and \$9,501, compared to \$5,470 and \$15,688 for the same periods in 2017. Interest expense decreased due to the significant decline in debenture debt from the refinancing transaction that was completed in January of 2018.

The loss from continuing operations was \$20,384 and \$26,469 for the three and nine months ended September 30, 2018, compared to \$6,120 and \$11,253 for the same periods in 2017. The losses in 2018 include a \$17,468 impairment write-down for goodwill relating to the Maintenance and Construction segment recorded in the third quarter of 2018.

Purchase of AFX

During the third quarter of 2018, ClearStream completed the acquisition of AFX for total consideration of up to \$2.5 million. AFX is a specialized manufacturer of wear resistant chromium carbide overlay and

structural steel fabrication with operations in Alberta. The acquisition is expected to increase the manufacturing capacity of ClearStream's existing Wear Technology business by 30%.

Refinancing Transaction

On January 16, 2018, ClearStream announced the completion of a refinancing transaction whereby Canso Investment Counsel Ltd. ("Canso"), one of the Company's major shareholders, exchanged a certain amount of ClearStream's debt for a newly created series of Preferred Shares and subscribed for additional Preferred Shares on a private placement basis.

The terms of the new Preferred Shares provide for a 10% fixed cumulative preferential dividend. The Board of Directors of the Company does not intend to declare or pay any cash dividends until such a time the Company's balance sheet and liquidity position supports such a payment. Any accrued but unpaid dividends are convertible in certain circumstances at the option of the holder into additional Preferred Shares. Holders of the Preferred Shares will have the right, at their option, to convert their Preferred Shares into Common Shares at a price of \$0.35 per Common Share, subject to adjustment in certain circumstances. The Preferred Shares are redeemable by the Company in cash at 110% of the purchase price for such shares, plus accrued but unpaid dividends once all of the outstanding Senior Secured Debentures have been repaid and are subject to repayment in the event of certain change of control transactions.

As part of the refinancing transaction, Canso exchanged \$75,000 of Senior Secured Debentures due 2026 for 75,000 preferred shares, and \$33,565 of Convertible Secured Debentures for 33,565 Preferred Shares. Additionally, ClearStream issued 19,000 Preferred Shares to Canso for proceeds of \$19,000 on a private placement basis. The proceeds of the private placement were used to fund the interest obligations related to the Senior Secured Debentures and Convertible Secured Debentures. As part of the refinancing transaction, ClearStream's ABL facility was amended and restated.

Sale of Transportation Assets

During the first quarter of 2018, ClearStream successfully completed the sale of its transportation assets for total consideration of \$3,400. The completion of the sale marks the closure of the Transportation division in order to focus attention on ClearStream's core business. A gain of \$1,032 was recognized on the sale.

Segment Operating Results

Maintenance and Construction Services

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	67,829	66,650	255,548	219,496
Cost of revenues	(64,409)	(62,814)	(243,434)	(205,375)
Gross profit	3,420	3,836	12,114	14,121
Selling, general and administrative expenses	(214)	(175)	(819)	(947)
Amortization expense	(588)	(648)	(1,820)	(1,947)
Depreciation expense	(786)	(659)	(2,285)	(1,905)
Impairment of goodwill and intangible assets	(17,468)	-	(17,468)	-
Income from equity investments	28	30	132	160
Interest expense	(80)	(62)	(213)	(189)
Gain on sale of property, plant and equipment	262	8	262	1,974
Income tax expense	(57)	-	(188)	-
Income from continuing operations	(15,483)	2,330	(10,285)	11,267
Add:				
Amortization	588	648	1,820	1,947
Depreciation	786	659	2,285	1,905
Interest expense	80	62	213	189
Income tax expense	57	-	188	-
EBITDAS	(13,972)	3,699	(5,779)	15,308
Impairment of goodwill and intangible assets	17,468	-	17,468	-
Gain on sale of property, plant and equipment	(262)	(8)	(262)	(1,974)
Adjusted EBITDAS	3,234	3,691	11,427	13,334

Revenues

Revenues for the Maintenance and Construction Services segment were \$67,829 and \$255,548 for the three and nine months ended September 30, 2018 compared to \$66,650 and \$219,496 for the same periods in the prior year. For the third quarter of 2018, revenues were relatively consistent with the prior year with an increase in non-union based maintenance demand offset by a decrease in union based demand.

For the nine months ended September 30, 2018, an increase in maintenance and plant turnaround demand led to the rise in revenue. Large plant turnarounds in Saskatchewan and Newfoundland were completed during the second quarter of 2018, which were incremental compared to 2017.

Gross Profit

Gross profit was \$3,420 and \$12,114 for the three and nine months ended September 30, 2018, compared with \$3,836 and \$14,121 for the same periods in the prior year. Gross profit margins for those same periods were 5.0% and 4.7% compared to 5.8% and 6.4% in 2017. Gross margins declined due to lower pricing and an unfavorable change in sales mix. Maintenance and construction services continue to be over-supplied relative to demand and, as a result, pricing levels declined compared to 2017. In addition, in the second quarter of 2018, we earned a larger proportion of revenue from work using

union based employees, which is lower margin work due to the higher cost of labour associated with this type of work.

SG&A Expenses

SG&A expenses for the Maintenance and Construction segment were \$214 and \$819 for the three and nine months ended September 30, 2018, compared with \$175 and \$947 for the same periods in the prior year. For the nine months ended September 30, 2018, SG&A expenses decreased over the comparative periods in 2017 due to reductions in headcount and discretionary spending.

Write-down of Goodwill

ClearStream performed impairment tests as at September 30, 2018 as a result of the adverse economic impact that low commodity prices have had on ClearStream's financial results and the industries that it operates in. The adverse economic impacts include lower pricing and demand for goods and services provided to customers. As a result of the testing performed, a goodwill impairment loss of \$17,468 was recorded at September 30, 2018 for the maintenance and construction segment. The goodwill impairment write-down is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, or debt covenants and does not have an impact on the future operations of the Company.

Fabrication, Wear Technology and Transportation Services

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	18,807	19,980	45,584	57,336
Cost of revenues	(14,827)	(17,181)	(36,770)	(47,209)
Gross profit	3,980	2,799	8,814	10,127
Selling, general and administrative expenses	(150)	(182)	(420)	(519)
Amortization expense	(163)	(213)	(492)	(641)
Depreciation expense	(327)	(588)	(976)	(1,759)
Interest expense	(15)	(39)	(42)	(148)
Gain (loss) on sale of property, plant and equipment	2	3	2	115
Other loss	(172)	-	(646)	-
Income tax recovery	(123)	-	(317)	-
Gain on sale of assets held for sale	-	-	1,032	-
Income from continuing operations	3,032	1,780	6,955	7,175
Add:				
Amortization	163	213	492	641
Depreciation	327	588	976	1,759
Interest expense	15	39	42	148
Income tax recovery	123	-	317	0
EBITDAS	3,660	2,620	8,782	9,723
Other loss	172	-	646	-
Gain (loss) on sale of property, plant and equipment	(2)	(3)	(2)	(115)
Gain on sale of assets held for sale	-	-	(1,032)	-
Adjusted EBITDAS	3,830	2,617	8,394	9,608

ClearStream sold all transportation assets on January 1, 2018. Total proceeds received on the sale were \$3,400 and a gain of \$1,032 was recognized on the sale. The following table shows the quarter-over-quarter results with the transportation division excluded to facilitate a more relevant comparative analysis:

Financial Results Excluding Transportation	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues	18,807	16,718	45,584	47,857
Cost of revenues	(14,827)	(14,034)	(36,770)	(38,037)
Gross Profit	3,980	2,684	8,814	9,819
Selling, general and administrative expenses	(150)	(107)	(420)	(300)
Adjusted EBITDAS	3,830	2,577	8,394	9,520

Revenues

Excluding the Transportation division, revenues for this segment for the three and nine months ended September 30, 2018 were \$18,807 and \$45,584, compared to \$16,718 and \$47,857 for the same periods in the prior year. The increase in revenue for the three months ended September 30, 2018, was largely due to an increase in Wear Technology demand.

Gross Profit

Gross profit was \$3,980 and \$8,814 for the three and nine months ended September 30, 2018, compared with \$2,684 and \$9,819 for the same periods in the prior year. For the three months ended September 30, 2018, gross margins increased to 21.2% from 16.1% due to a favorable increase in sales mix, with Wear Technology revenue representing a larger proportion of revenue for this segment. On a year-to-date basis, gross margins were relatively consistent compared to the prior year.

SG&A Expenses

Excluding the Transportation division, SG&A expenses for the Fabrication and Wear Technology segment for the three and nine months ended September 30, 2018 increased compared to the prior periods due to an increase in people costs.

The other loss of \$172 and \$646 for the three and nine months ended September 30, 2018, relates to losses on a contract that was deemed to be onerous under IFRS after the sale of the transportation assets. The gain on sale of assets held for sale relates to the sale of the Transportation business that closed in early 2018.

Corporate

ClearStream's head office functions are located in Calgary, Alberta. The Corporate division 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,	
	2018	2017	2018	2017
Selling, general administrative expenses	(5,265)	(4,572)	(13,559)	(12,386)
Stock based compensation	12	80	(143)	(579)
Depreciation expense	(95)	(91)	(254)	(263)
Interest expense	(2,942)	(5,369)	(9,246)	(15,351)
Gain from assets held for sale	-	105	(275)	(287)
Restructuring costs	(43)	(383)	(127)	(827)
Loss on sale of property, plant and equipment	(53)	-	12	-
Income tax recovery	336	-	336	(2)
Impairment of goodwill and intangible assets	-	-	-	-
Loss from continuing operations	(8,385)	(10,230)	(23,591)	(29,695)
Add:				
Depreciation expense	95	91	254	263
Stock based compensation	(12)	(80)	143	579
Interest expense	2,942	5,369	9,246	15,351
Income tax recovery	(336)	-	(336)	2
EBITDAS	(5,361)	(4,850)	(13,949)	(13,500)
Gain from assets held for sale	-	(105)	275	287
Restructuring costs	43	383	127	827
Loss on sale of property, plant and equipment	53	-	(12)	-
One-Time incurred expenses	282	-	282	-
Adjusted EBITDAS	(4,983)	(4,572)	(13,277)	(12,386)

SG&A Expenses

SG&A expenses were \$5,265 and \$13,559 for the three and nine months ended September 30, 2018 compared to \$4,572 and \$12,386 for the same periods in the prior year. SG&A costs increased on a year-over-year basis due to higher legal, consulting and people costs. Included in third quarter SG&A costs are \$282 in one-time expenses, which include costs related to the acquisition of AFX.

Discontinued Operations

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Loss from Discontinued Operations	\$ (310)	\$ (50)	\$ (610)	\$ (2,307)

The loss from discontinued operations is due to expenses that the Company continues to incur relating to Quantum Murray. These expenses consist largely of legal, insurance, and consulting costs relating to the Quantum Murray earn-out and legal proceedings that existed prior to the sale of the business.

Liquidity and Capital Resources

Cash Flow

The following table summarizes the major consolidated cash flow components:

Nine months ended September 30,	2018	2017
Cash used in operating activities	\$ (16,641)	\$ (26,980)
Cash provided by investing activities	1,779	472
Cash provided by financing activities	13,175	15,005
Decrease in cash for the period	\$ (1,687)	\$ (11,503)

Operating Activities

Cash used in operating activities during the first nine months of 2018 consists largely of the net loss for the period, adjusted for non-cash items, combined with an increase in working capital of \$11,438. The rise in working capital is consistent with the increase in operating activity relative during 2018.

Investing Activities

Cash inflows related to investment activities consist of proceeds of \$3,400 from the sale of transportation assets and \$1,225 in proceeds from the early settlement of an earn-out receivable. These proceeds were offset partially by transaction costs of \$1,060 paid on the transportation asset sale as well as \$1,812 in cash paid for the acquisition of AFX.

The Company repaid \$2,340 of the senior secured debentures with a portion of the proceeds on sale of transportation assets. The remaining cash from the sale was used to fund transaction costs and costs associated with closing down the transportation division.

Financing Activities

See a description of the refinancing transaction completed during the quarter under “Significant First Quarter 2018 Transactions.” In addition, the Company received \$8,000 of cash that must be used to fund interest obligations during 2018, which has been classified as restricted cash on the consolidated balance sheet. During the second quarter of 2018, interest of \$3,955 was paid out of restricted cash. The Company also incurred approximately \$3,681 in transaction costs associated with the refinancing transaction.

The balance on the ABL facility increased by \$5,000 to \$32,500 during the first nine months of 2018, which was used to partially fund the increase in working capital as well as the acquisition of AFX. At September 30, 2018, the ABL borrowing base is \$35,959 leaving \$3,459 of availability on the facility.

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

- ClearStream must maintain a Fixed Charge Coverage Ratio of not less than 1.0:1.0 for each cumulative period beginning on May 1, 2017 and ending on the last day of each month until March 31, 2018;
- ClearStream must maintain a Fixed Charge Coverage Ratio of 1.0:1.0 for each twelve month period ending on and after April 30, 2018; and

- ClearStream must not expand 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) plus finance lease payments (excluding any interest paid using proceeds from the preferred share issuance in January 2018);

At September 30, 2018, ClearStream's fixed charge coverage ratio was 1.26:1.00 for the cumulative period beginning on October 1, 2017 and ending on September 30, 2018. ClearStream was in compliance with all financial covenants under the ABL Facility as at September 30, 2018.

At each reporting date, management makes an assessment as to whether ClearStream will continue to meet the going concern assumption over the next twelve months. Making this assessment requires significant judgment with respect to forecasted EBITDA and Debt Servicing Costs. Based on management's current forecast, ClearStream is expected to remain in compliance with the covenants under the ABL Facility over the next twelve months. However, there continues to be a risk that the Company will not meet forecasted expectations and therefore breach financial covenants within the next twelve months.

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. Significant accounting policies and methods used in the preparation of the consolidated financial statements, including use of estimates and judgements, are described in note 1 of the annual financial statements.

New standards, interpretations and amendments adopted by the Company

IFRS 9 Financial Instruments

On January 1, 2018, ClearStream adopted IFRS 9 Financial Instruments. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on ClearStream's consolidated financial statements.

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Upon adoption of IFRS 9, ClearStream has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

Financial instruments

Financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured based on their classification as described below:

- Fair value through profit or loss ("FVTPL"): Financial instruments under this classification include cash and restricted cash
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable, ABL Facility, senior secured debentures and convertible secured debentures

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, ClearStream adopted IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized.

The Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Maintenance and Construction services revenue includes revenue from contracts entered into to provide maintenance and construction services to various industries, including energy, mining, agriculture, pulp and paper and petrochemical. The majority of the revenue within the Maintenance and Construction segment relates to contracts with customers to perform services based on cost plus an agreed-upon margin.

Wear and Fabrication services revenue includes the sale of goods with respect to general and modular fabrication; custom fabrication services supporting pipeline and infrastructure projects; and patented wear overlay technology services that specialize in overlay pipe spools, pipe bends and plate. The majority of revenue within the Wear and Fabrication segment relates to contracts with customers to construct goods to client specifications for an agreed-upon price.

Revenue from the sale of services

Performance obligations arising from contracts with customers require ClearStream to provide labour hours and rental of equipment as requested. Each individual contract may contain multiple performance obligations and at contract inception, consideration is variable as the total number of hours required is not fixed. However, under the terms of its contracts with customers, ClearStream has the right to consideration in an amount that corresponds directly with the value to its customers of

performance completed to date, and therefore recognizes revenue over time based on the amount ClearStream has the right to invoice.

Revenue from the sale of goods

At the inception of each contract with a customer, ClearStream identifies the distinct performance obligations based on promises to transfer distinct goods to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. ClearStream's performance obligations are generally satisfied over time as work progresses because of continuous transfer of control to the customer. For contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation using the Company's best estimate of the standalone selling price of each distinct good in the contract.

Transfer of control is measured utilizing an input method to measure progress for contracts based on an analysis of costs incurred to date compared to total estimated costs. These costs, once incurred, are considered a measure of progress and are expensed in the period in which they are incurred. Total estimated project costs and resulting contract income are affected by changes in the expected cost of materials and labor, productivity, scheduling and other factors. Additionally, external factors such as customer requirements and other factors outside of ClearStream's control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. Changes in total estimated contract cost and losses, if any, are recognized in the period they are determined.

Earn-out assets

Earn-out assets arise as a result of contingent consideration received in an asset sale and are, by their nature, variable consideration arising from contracts with customers. ClearStream uses either the "expected value" or "most likely method" to measure variable consideration related to earn-out assets depending on the contractual terms of the contingent consideration. Variable consideration is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved (i.e. the variable consideration constraint).

Transition adjustment

The Company has elected to adopt IFRS 15 using the modified retrospective approach. Accordingly, the cumulative effect of initially applying IFRS 15 was recognized on January 1, 2018 as an adjustment to deficit. There were no adjustments recorded to deficit related to the timing or amounts of revenue recognized; however, ClearStream recorded an adjustment upon adoption of IFRS 15 of approximately \$950 as a decrease to earn-out assets and an increase to deficit. Comparative information has not been restated and is reported under the previous revenue standard, IAS 18 Revenue.

New standards and interpretations not yet adopted

IFRS 16 Leases provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has commenced its assessment of the impact of adoption of IFRS 16 and will provide additional disclosure on expected financial impact of IFRS 16 in the fourth quarter of 2018.

Summary of Quarterly Results

(\$000s except unit amounts)

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Revenues	\$85,996	\$129,702	\$ 84,794	\$ 81,972	\$ 85,927	\$ 111,559	\$ 77,689	\$ 72,913
Gross Margin	\$7,400	\$6,709	6,819	6,171	6,635	11,073	6,540	7,305
Gross Margin %	8.6%	5.2%	8.0%	7.5%	7.7%	9.9%	8.4%	10.0%
Net loss from continuing operations	(20,384)	(3,097)	(2,988)	(21,207)	(6,120)	(1,510)	(3,623)	(6,829)
Net loss	(20,694)	(3,210)	(3,175)	(22,345)	(6,170)	(3,397)	(3,993)	(12,858)
Loss per share from continuing operations	(0.19)	(0.03)	(0.03)	(0.19)	(0.06)	(0.01)	(0.03)	(0.06)
Loss per share	(0.19)	(0.03)	(0.03)	(0.20)	(0.06)	(0.03)	(0.04)	(0.12)

ClearStream's revenues are somewhat seasonal, in particular for the Maintenance and Construction segment. Typically, there are scheduled shutdown turnaround projects in the spring and fall which increases revenues over and above the standard maintenance and operational support services.

Transactions with Related Parties

Ownership

As of September 30, 2018, directors, officers and employees beneficially hold an aggregate of 15,358,838 common shares or 14.0% on a fully diluted basis.

Transactions

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 (2017 - \$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.

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 of the date hereof, there were 109,941,241 common shares issued and outstanding, 127,565

preferred shares issued and outstanding, 1,830,000 stock options outstanding and 870,000 performance share units outstanding.

Outlook

Demand for ClearStream core services, including maintenance and Wear Technology, is expected to remain stable during the fourth quarter of 2018; however, revenue is expected to be down compared to the fourth quarter of 2017 due to a decline in Fabrication demand. Despite the expected decrease in revenue, fourth quarter gross profit is expected to be consistent on year-over-year basis due to an expected favorable change in sales mix.

The oil and gas maintenance industry is very competitive and is expected to remain that way for the balance of 2018 and into 2019. Although demand has increased in 2018, gross profit margins have declined due to the continued pressure on pricing. We continue to believe that size and scale are required to provide greater efficiencies and cost savings to our clients. Consolidation of scope of services and higher utilization of the labour supply within the maintenance and turnaround segment must occur before pricing and margin improvements are realized by ClearStream.

Clearstream must continue to focus on cost control, efficiency improvements and operational execution to stay ahead of our competition. We will also actively seek to expand our scope of services and geographical footprint with more value-added solutions and technologies.

Risk Factors

There are no updates to ClearStream's risk factors. For further discussion, refer to ClearStream's MD&A or AIF dated February 28, 2018 for the year ended December 31, 2017.

Disclosure Controls & Procedures and Internal Control over Financial Reporting

Disclosure controls and procedures

National Instrument 51-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 51-109"), issued by the CSA requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining the disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

ClearStream's management, including its CEO and CFO, have evaluated the effectiveness of ClearStream's disclosure controls and procedures as at December 31, 2017 and have concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by ClearStream in its corporate filings is recorded, processed, summarized and reported within

the required time period for the year then ended. The CEO and CFO have certified the appropriateness of the financial disclosures in ClearStream's filings for the quarter ended September 30, 2018 with securities regulators, including this MD&A and the accompanying audited consolidated financial statements and that they are responsible for the design of the disclosure controls and procedures.

Internal controls over financial reporting

NI 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS, and that the issuer has disclosed any changes in its internal controls during its most recent year end that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

There have been no changes in internal controls over financial reporting during the quarter ended September 30, 2018 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

Due to the inherent limitations common to all control systems, management acknowledges that disclosure controls and procedures and internal control over financial reporting may not prevent or detect all misstatements. Accordingly, management's evaluation of our disclosure controls and procedures and internal control over financial reporting provide reasonable, not absolute, assurance that misstatements resulting from fraud or error will be detected.

Additional Information

Additional information relating to ClearStream including ClearStream's AIF is on SEDAR at www.sedar.com or on our website www.ClearStreamEnergy.ca

CLEARSTREAM ENERGY SERVICES INC.

Condensed Consolidated Interim Financial Statements of
Nine Months Ended September 30, 2018 and 2017
(Unaudited)

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(unaudited)

As at	September 30, 2018	December 31, 2017
Cash	\$ 2,962	\$ 4,649
Restricted cash (note 2)	5,057	980
Accounts receivable (note 13)	72,491	66,177
Inventories	5,296	4,304
Prepaid expenses and other	2,249	2,989
Earn-out assets (note 3)	-	1,277
Assets held for sale (note 4)	-	2,506
Total current assets	88,055	82,882
Property, plant and equipment (note 5)	22,909	20,657
Goodwill and intangible assets (note 15)	7,002	26,765
Earn-out assets (note 3)	-	1,173
Long-term investments	707	575
Deferred financing costs (note 6)	305	591
Total assets	\$ 118,978	\$ 132,643
Accounts payable and accrued liabilities	\$ 32,062	\$ 36,276
Deferred revenue	146	146
Contingent consideration liability (note 14)	638	-
Current portion of obligations under finance leases	1,252	1,462
Current liabilities of assets held for sale (note 4)	-	1,197
ABL facility (note 6)	32,500	27,500
Senior secured debentures (note 6)	-	171,988
Convertible secured debentures (note 6)	-	24,999
Current portion of provision (note 7)	1,072	1,196
Total current liabilities	67,670	264,764
Provision (note 7)	4,075	4,582
Obligations under finance leases	3,427	2,185
Senior secured debentures (note 6)	96,688	-
Convertible secured debentures (note 6)	975	-
Total liabilities	\$ 172,835	\$ 271,531
Common shares	462,036	469,030
Preferred shares (note 8)	102,130	-
Contributed surplus	20,881	2,958
Deficit	(638,904)	(610,876)
Total shareholders' deficit	(53,857)	(138,888)
Total liabilities and shareholders' deficit	\$ 118,978	\$ 132,643

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue (note 10)	\$ 85,996	\$85,927	\$ 300,492	\$ 275,175
Cost of revenue	(78,596)	(79,292)	(279,564)	(250,927)
Gross profit	7,400	6,635	20,928	24,248
Selling, general and administrative expenses (note 9)	(5,629)	(4,929)	(14,798)	(13,852)
Stock based compensation recovery (expense) (note 12)	12	80	(143)	(579)
Amortization of intangible assets	(751)	(861)	(2,312)	(2,588)
Depreciation (note 5)	(1,208)	(1,338)	(3,515)	(3,927)
Income from equity investment	28	30	132	160
Interest expense	(3,037)	(5,470)	(9,501)	(15,688)
Gain (loss) on sale of assets held for sale (notes 3 & 4)	-	105	757	(287)
Restructuring costs	(43)	(383)	(127)	(827)
Impairment of goodwill (note 15)	(17,468)	-	(17,468)	-
Other loss (notes 7 & 14)	(55)	-	(529)	-
Gain on sale of property, plant and equipment	211	11	276	2,089
Loss from continuing operations before taxes	(20,540)	(6,120)	(26,300)	(11,251)
Income tax recovery (expense) - current	156	-	(169)	(2)
Loss from continuing operations	(20,384)	(6,120)	(26,469)	(11,253)
Loss from discontinued operations (net of income taxes)	(310)	(50)	(610)	(2,307)
Net loss and comprehensive loss	\$ (20,694)	\$ (6,170)	\$ (27,079)	\$ (13,560)
Loss per share (note 11)				
Basic & diluted:				
Continuing operations	\$ (0.19)	\$ (0.06)	\$ (0.24)	\$ (0.10)
Discontinued operations	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.02)
Net loss	\$ (0.19)	\$ (0.06)	\$ (0.25)	\$ (0.12)

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	Common Shares	Preferred Shares	Contributed Surplus	Deficit	Total Shareholders' Deficit
Balance - December 31, 2017	109,941,241	\$ 469,030	\$ -	\$ 2,958	\$ (610,876)	\$ (138,888)
Net loss	-	-	-	-	(27,079)	(27,079)
Stock based compensation	-	-	-	216	-	216
Issuance of preferred shares (note 8)	-	-	102,130	-	-	102,130
Equity component of convertible debentures (note 6)	-	(6,994)	-	6,994	-	-
Gain on debt extinguishment (note 6)	-	-	-	10,713	-	10,713
Impact of transition to IFRS 15 (note 1)	-	-	-	-	(949)	(949)
Balance - September 30, 2018	109,941,241	462,036	102,130	20,881	(638,904)	\$ (53,857)

	Number of shares	Common Shares	Preferred Shares	Contributed Surplus	Deficit	Total Shareholders' Deficit
Balance - December 31, 2016	109,941,241	\$ 469,030	\$ -	\$ 2,427	\$ (574,971)	\$ (103,514)
Net loss	-	-	-	-	(13,560)	(13,560)
Stock based compensation	-	-	-	395	-	395
Balance - September 30, 2017	109,941,241	469,030	-	2,822	(588,531)	\$ (116,679)

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)

Nine months ended	September 30, 2018	September 30, 2017
Operating activities:		
Net loss for the period	\$ (27,079)	\$ (13,560)
Loss from discontinued operations (net of income tax)	610	2,307
Items not affecting cash:		
Stock based compensation	143	396
Amortization of intangible assets	2,312	2,588
Depreciation	3,515	3,927
Income from equity investments	(132)	90
Accretion expense	234	625
Other loss	530	-
Impairment of goodwill	17,468	-
Onerous lease payments (note 7)	(1,278)	-
Amortization of deferred financing costs	453	432
Income tax recovery	(336)	-
Gain (loss) on sale of assets held for sale	(757)	287
Gain on sale of property, plant and equipment	(276)	(2,089)
Changes in non-cash working capital	(11,438)	(17,913)
Cash used in discontinued operations	(610)	(4,070)
Total cash used in operating activities	\$ (16,641)	\$ (26,980)
Investing activities:		
Purchase of property, plant and equipment (note 5)	(806)	(2,462)
Net proceeds on disposal of property, plant and equipment	832	2,991
Purchase of intangible assets	-	(57)
Acquisition of AFX (note 14)	(1,812)	-
Proceeds on the disposition of businesses (note 3&4)	4,625	-
Transaction costs (note 4)	(1,060)	-
Total cash provided by investing activities	\$ 1,779	\$ 472
Financing activities:		
Increase in restricted cash (note 2)	(4,077)	-
Increase in bank indebtedness	-	2,383
Proceeds from the issuance of preferred shares (note 8)	19,000	-
Repayment of senior secured debentures	(2,340)	-
Refinancing fees (note 6)	(3,677)	-
Advance on ABL facility	5,000	15,500
Repayment of obligations under finance leases	(1,823)	(2,878)
Changes in non-cash working capital	1,092	-
Total cash provided by financing activities	\$ 13,175	\$ 15,005
Decrease in cash	(1,687)	(11,503)
Cash, beginning of period	4,649	11,503
Cash, end of period	\$ 2,962	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

ClearStream Energy Services Inc. (“ClearStream” or the “Company”) is a corporation formed pursuant to the Business Corporations Act (Ontario). The head office is located at 311-6th Avenue, Calgary, Alberta. ClearStream is a fully-integrated provider of midstream production services, which includes maintenance and turnarounds, facilities construction, welding and fabrication and environmental services with locations across Western Canada.

The condensed interim consolidated financial statements were authorized for issuance in accordance with a resolution of the Board of Directors of ClearStream on November 6, 2018.

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 interim consolidated 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. Accordingly, 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, 2017. These interim financial statements follow the same accounting policies and methods of computations as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy discussed in part c) below.

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 presentation.

b) Recently Adopted Accounting Pronouncements

IFRS 9 Financial Instruments

On January 1, 2018, ClearStream adopted IFRS 9 *Financial Instruments*. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking ‘expected credit loss’ model. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on ClearStream’s consolidated financial statements.

IFRS 9 was applied retrospectively in accordance with transition requirements with no impact to opening retained earnings or comparative periods. Upon adoption of IFRS 9, ClearStream has

revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

Financial instruments

Financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured based on their classification as described below:

- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable, ABL Facility, senior secured debentures and convertible secured debentures

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, ClearStream adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized.

The Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue recognition

Maintenance and Construction services revenue includes revenue from contracts entered into to provide maintenance and construction services to various industries, including energy, mining, agriculture, pulp and paper and petrochemical. The majority of the revenue within the Maintenance and Construction segment relates to contracts with customers to perform services based on cost plus an agreed-upon margin.

Wear and Fabrication services revenue includes the sale of goods with respect to general and modular fabrication; custom fabrication services supporting pipeline and infrastructure projects; and patented wear overlay technology services that specialize in overlay pipe spools, pipe bends and plate. The majority of revenue within the Wear and Fabrication segment relates to contracts with customers to construct goods to client specifications for an agreed-upon price.

Revenue from the sale of services

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Revenue from the sale of goods

At the inception of each contract with a customer, ClearStream identifies the distinct performance obligations based on promises to transfer distinct goods to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. ClearStream's performance obligations are generally satisfied over time as work progresses because of continuous transfer of control to the customer. For contracts with multiple performance obligations, the contract's transaction price is allocated to each performance obligation using the Company's best estimate of the standalone selling price of each distinct good in the contract.

Transfer of control is measured utilizing an input method to measure progress for contracts based on an analysis of costs incurred to date compared to total estimated costs. These costs, once incurred, are considered a measure of progress and are expensed in the period in which they are incurred. Total estimated project costs and resulting contract income are affected by changes in the expected cost of materials and labor, productivity, scheduling and other factors. Additionally, external factors such as customer requirements and other factors outside of ClearStream's control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. Changes in total estimated contract cost and losses, if any, are recognized in the period they are determined.

Earn-out assets

Earn-out assets arise as a result of contingent consideration received in an asset sale and are, by their nature, variable consideration arising from contracts with customers. ClearStream uses either the "expected value" or "most likely method" to measure variable consideration related to earn-out assets depending on the contractual terms of the contingent consideration. Variable consideration is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved (i.e. the variable consideration constraint).

Transition adjustment

The Company has elected to adopt IFRS 15 using the modified retrospective approach. Accordingly, the cumulative effect of initially applying IFRS 15 was recognized on January 1, 2018 as an adjustment to deficit. There were no adjustments recorded to deficit related to the timing or amounts of revenue recognized; however, ClearStream recorded an adjustment upon adoption of IFRS 15 of approximately \$949 as a decrease to earn-out assets and an increase to deficit. Comparative information has not been restated and is reported under the previous revenue standard, IAS 18 *Revenue*.

c) **New Standards and Interpretations Not Yet Adopted**

IFRS 16 Leases provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has started its assessment of the impact of adoption of IFRS 16.

2. Restricted cash

At September 30, 2018, the Company had \$5,057 in restricted cash (December 31, 2017 - \$980). Of this total, approximately \$4,077 (December 31, 2017 - nil) represents a portion of the proceeds from the issuance of preferred shares in January 2018 (refer to Note 8) and is held in trust with a Canadian Schedule A Bank. This cash can only be used by the Company to pay interest on the senior secured debentures and convertible secured debentures during the year ended December 31, 2018 and is therefore classified as restricted. During the nine months ended September 30, 2018, the Company paid interest on the senior secured and convertible debentures of \$3,953. The remaining \$980 (December 31, 2017 - \$980) is backing letters of credit and cash in trust held on behalf of insurance providers.

3. Earn-out assets

a) Gusgo Transport LP ("Gusgo") earn-out

As a result of the sale of its 80% interest in Gusgo in March 2016, ClearStream was entitled to an earn-out of \$1,500 if a customer of Gusgo exercised its option to renew an existing contract at December 31, 2018. During the second quarter of 2018, the Company negotiated an early settlement of the earn-out for \$1,225. As a result, a loss on sale of assets held for sale of \$275 was recorded in the statement of loss during the nine months ended September 30, 2018.

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, ClearStream is entitled to an earn-out of up to approximately \$6,200 if certain pre-determined free cash flow targets are achieved for the years ended March 31, 2019, 2018 and 2017. For the years ended March 31, 2018 and 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 and second years can instead be earned in the year ending March 31, 2019 if the free cash flow in 2019 exceeds that year's target combined with the targets for the year ended March 31, 2018 and 2017.

The variable consideration available to ClearStream as a result of the Quantum Murray and Titan earn-out was measured at September 30, 2018 using the "expected value method", which was determined to be \$nil (December 31, 2017 - \$1,173) as a result of the application of the variable consideration constraint.

4. Assets held for sale

On March 14, 2018, the Company sold the assets and ongoing business operations of the Transportation Cash Generating Unit ("CGU") for cash consideration of \$3,400, excluding transaction costs of \$1,060, and recognized a gain on disposal in the amount of \$1,032 within the Statement of Loss. The non-current assets and liabilities of the Transportation CGU were classified as held for sale as at December 31, 2017.

The results of the Transportation CGU are not presented within discontinued operations based on management's determination that the CGU did not represent a major component of ClearStream's operations.

5. Property, plant and equipment

During the nine months ended September 30, 2018, the Company acquired assets with a cost of \$6,322 (nine months ended September 30, 2017 - \$2,856), which includes equipment acquired under acquisition of \$2,540 (note 14) (nine months ended September 30, 2017 - \$nil), and equipment under finance leases of \$3,769 (nine months ended September 30, 2017 - \$394).

Cost as at January 1, 2018	\$ 69,843
Additions	6,322
Disposals	(2,160)
Cost as at September 30, 2018	\$ 74,005
Accumulated depreciation as at January 1, 2018	\$ (49,186)
Depreciation	(3,515)
Disposals	1,605
Accumulated depreciation as at September 30, 2018	\$ (51,096)
Net book value, January 1, 2018	\$ 20,657
Net book value, September 30, 2018	\$ 22,909

As at September 30, 2018, property, plant and equipment included \$17,451 (December 31, 2017 - \$11,070) that was subject to a general security agreement under the senior secured debentures and the convertible secured debentures.

6. ABL facility and debentures

a) ABL Facility

The ABL Facility is a revolving facility providing for maximum borrowings of up to \$50,000 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 September 30, 2018 is \$35,959 (December 31, 2017 - \$34,629). 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 September 30, 2018, \$32,500 (December 31, 2017 - \$27,500) was drawn on the ABL Facility, leaving \$3,459 of availability on the ABL Facility (December 31, 2017 - \$7,129). The Company incurred \$1,727 in deferred financing fees associated with the ABL Facility in 2016 and an additional \$167 in fees in 2018. These costs are being amortized over the term of the facility. As at September 30, 2018, the net unamortized amount of deferred financing costs was \$305 (December 31, 2017 - \$591). The financial covenants applicable under the ABL Facility are as follows:

- ClearStream must maintain a Fixed Charge Coverage Ratio of 1.0:1.0 for each twelve month period ending on and after April 30, 2018; and
- ClearStream must not expand 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:

- Earnings before interest, taxes, depreciation and amortization excluding non-cash gains or losses and non-recurring items at the discretion of the lenders ("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) plus finance lease payments (excluding any interest paid using proceeds from the preferred share issuance in January 2018 (refer to Note 8))

At September 30, 2018, ClearStream's 12 month fixed charge coverage ratio was 1.26:1.00. ClearStream was in compliance with all financial covenants under the ABL Facility as at September 30, 2018.

At each reporting date, management makes an assessment as to whether ClearStream will continue to meet the going concern assumption over the next twelve months. Making this assessment requires significant judgment with respect to forecasted EBITDA and Debt Servicing Costs. Based on management's current forecast, ClearStream is expected to remain in compliance with the covenants under the ABL Facility over the next twelve months. However there is a risk that the Company will not meet forecasted expectations and therefore breach financial covenants during the year ended September 30, 2019.

b) Senior Secured Debentures

On March 23, 2016, the Company issued an aggregate of \$176,228 principal amount of senior secured debentures to Canso Investment Counsel Ltd. ("Canso") on a private placement basis.

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 debentures and will be accreted over the term of Senior Secured Debentures.

On January 16, 2018, as part of a refinancing transaction, the Company exchanged \$75,000 of the Senior Secured Debentures due 2026 for 75,000 Preferred Shares (refer to Note 8). This was accounted for as an extinguishment of a portion of the senior secured debentures, whereby the difference between the carrying amount of those exchanged debentures and the fair value of the preferred shares issued was recognized within contributed surplus due to the conclusion that the holders of the senior secured debentures were acting within their capacity as shareholders for purposes of the transaction. Transaction costs incurred on the restructuring (including the extinguishment of the convertible secured debentures as described in Note 6(c)) of approximately \$3,513 were also recorded within contributed surplus, consistent with the treatment of the gain of approximately \$10,713.

During the nine months ended September 30, 2018, the Company repaid \$2,340 of Senior Secured Debentures with a portion of the consideration received from the sale of the assets of the Transportation CGU (Note 4).

Balance at December 31, 2017	\$ 171,988
Accretion	190
Extinguishment of debt, net of deferred financing costs	(73,205)
Debt repayment, net of deferred financing fees	(2,285)
Balance as of September 30, 2018	\$ 96,688

c) Convertible Secured Debentures

On March 23, 2016, the Company issued an aggregate of \$25,000 principal amount of convertible secured debentures to Canso and an additional \$10,000 principal amount of convertible debentures pursuant to a rights offering, a portion of which were also issued to Canso.

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 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.

On January 16, 2018, as part of a refinancing transaction, the Company exchanged convertible secured debentures with a principal amount of \$33,565 (of which \$25,743 was applied to the liability component) for 33,565 Preferred Shares (refer to Note 8). This was accounted for as an extinguishment of a portion of the convertible secured debentures, whereby the difference between the carrying amount of those exchanged debentures and the fair value of the preferred shares issued was recognized within contributed surplus due to the conclusion that the holders of the senior secured debentures were acting within their capacity as shareholders for purposes of the transaction. Transaction costs on the restructuring (including the extinguishment of the senior secured debentures as described in Note 6(b)) incurred of approximately \$3,513 were also

recorded within contributed surplus, consistent with the treatment of the gain of approximately \$10,713.

Liability component of convertible secured debentures		
As at December 31, 2017	\$	24,999
Accretion		44
Extinguishment of debt, net of deferred financing fees		(24,068)
As at September 30, 2018	\$	975

7. Provision

At December 31, 2017, a contract related to the Transportation CGU was deemed to be onerous and therefore a provision of \$5,778 was recorded. The following table outlines the changes to the provision recorded during the nine months ended September 30, 2018:

Opening balance, at December 31, 2017	\$	5,778
Changes in estimated future cash flows		107
Cash payments		(1,278)
Accretion		540
Balance at September 30, 2018	\$	5,147

At September 30, 2018, \$1,072 of the provision was classified as current (December 31, 2017 - \$1,196).

8. Preferred shares

On January 16, 2018, ClearStream issued 108,565 preferred shares to Canso in exchange for the extinguishment of \$75,000 principal amount senior secured debentures and \$33,565 principal amount convertible secured debentures (refer to Notes 6(b) and (c)). An additional 19,000 preferred shares were issued on the same date to Canso in exchange for cash consideration of \$19,000. The cash proceeds were used to fund the interest obligations related to the senior secured debentures and convertible secured debentures at December 31, 2017 of \$8,799. The remaining cash proceeds will be used to fund transaction costs and \$8,000 of interest accruing on the remaining outstanding debentures during the year ended December 31, 2018 which is classified as restricted cash at September 30, 2018 (refer to Note 2).

The preferred shares provide for a 10% fixed cumulative preferential dividend that is only required to be paid in cash upon sole determination by ClearStream's Board of Directors. Any accrued but unpaid dividends are convertible in certain circumstances at the option of the holder into additional preferred shares equal to \$1,000 per preferred share. Holders of the preferred shares have the right, at their option, to convert their preferred shares into common shares at a price of \$0.35 per common share, subject to adjustment in certain circumstances. The preferred shares are redeemable by the Company in cash at 110% of the purchase price for such shares, plus accrued but unpaid dividends once all of the outstanding senior secured debentures have

been repaid and are subject to repayment in the event of certain change of control transactions. As a result of the dividends being payable in cash only at the sole discretion of ClearStream's Board of Directors and the fact that any accrued but unpaid dividends are convertible into additional preferred shares at a fixed rate of \$1,000 per preferred share, the preferred shares are accounted for within shareholders' equity.

Upon issuance, the preferred shares were measured at fair value of \$800 per preferred share, which was estimated using a discounted cash flow methodology based on key assumptions including: length of time the preferred shares are expected to be outstanding before conversion, redemption and/or an alternative restructuring event; and the discount rate applied.

9. Selling, general & administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Salaries & benefits	\$ 3,284	\$ 2,334	\$ 7,889	\$ 6,805
Occupancy costs	290	401	613	1,364
Professional Fees	975	660	3,333	1,486
Travel	367	369	1,067	1,110
Repairs & maintenance	56	179	203	485
Office	210	333	565	877
Insurance	347	294	885	944
Other	100	359	243	781
	\$ 5,629	\$ 4,929	\$ 14,798	\$ 13,852

10. Revenue

The following are amounts for each significant category of revenue recognized during the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2,018	2,017	2,018	2,017
Rendering of services	67,829	66,650	255,548	219,496
Sales of goods	18,167	19,277	44,944	55,679
Total revenue	85,996	85,927	300,492	275,175

As at September 30, 2018, there was \$10,439 (December 31, 2017 - \$9,542) of accounts receivable recognized in excess of progress billings in accordance with revenue recorded following the percentage of completion method.

11. Loss per share

The following table sets forth the adjustments to the numerator and denominator for fully diluted loss per share:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Numerator:				
Loss from continuing operations	(20,384)	(6,120)	(26,469)	(11,253)
Loss from discontinued operations	(310)	(50)	(610)	(2,307)
Net loss	\$ (20,694)	\$ (6,170)	\$ (27,079)	\$ (13,560)
Denominator:				
Weighted average number of shares outstanding	109,941	109,941	109,941	109,941

As a result of the net losses incurred in all periods presented, all potentially dilutive securities were anti-dilutive.

12. 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	6,560,000	0.28
Forfeited	(3,400,000)	0.28
Balance as at December 31, 2017	3,160,000	0.28
Forfeited	(1,330,000)	0.28
Balance as at September 30, 2018	1,830,000	0.28
Exercisable as at September 30, 2018	-	-

The options outstanding at September 30, 2018 have a weighted average remaining contractual life of 3.25 years (December 31, 2017 – 4.08 years). For the nine months ended September 30, 2018, the Company recognized \$122 of share based compensation expense relating to stock options (nine months ended September 30, 2017 - \$297).

Restricted Share Units and Performance 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. As at September 30, 2018, the intrinsic value of the RSUs outstanding was \$145 (December 31, 2017 - \$392).

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.

The following table summarizes the units outstanding:

	RSUs	PSUs
Balance as at January 1, 2017	-	-
Granted	5,510,000	4,070,000
Forfeited in 2017	(1,160,000)	(2,330,000)
Balance as at December 31, 2017	4,350,000	1,740,000
Forfeited	(730,000)	(870,000)
Balance as at September 30, 2018	3,620,000	870,000
Exercisable as at September 30, 2018	-	-

ClearStream's five day weighted average closing share price at September 30, 2018 was \$0.04 (December 31, 2017 - \$0.09). The weighted average remaining contractual life of the outstanding RSUs as at September 30, 2018 was 0.9 years (December 31, 2017 – 1.4 years). The weighted average remaining contractual life of the outstanding PSUs as at September 30, 2018, was 0.7 years (December 31, 2017 – 1.4 years). For the nine months ended September 30, 2018, a recovery of \$71 of share based compensation was recognized relating to RSUs (nine months ended September 30, 2017 – expense of \$183) and \$92 of share based compensation expense was recognized relating to PSUs (nine months ended September 30, 2017 – \$97).

13. Risk management

- i) 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 or interest rate risk from December 31, 2017.

ii) 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:

As at	September 30, 2018	December 31, 2017
Cash	\$2,962	\$ 4,649
Restricted cash	5,057	980
Accounts receivable	72,491	66,177
Earn-out assets	-	2,450
Total	\$80,510	\$ 74,256

Cash and restricted cash are held at Canadian Schedule A Banks and are therefore 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 September 30, 2018, \$54,193 (December 31, 2017 - \$49,344) related to trade receivables and \$18,298 (December 31, 2017 - \$16,833) 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 September 30, 2018, approximately \$5,623 of ClearStream's trade receivables had been outstanding longer than 90 days (December 31, 2017 - \$2,272). Subsequent to period ended September 30th, 2018, approx. \$2,300 of the \$5,623 over 90 days was collected. Management has fully evaluated the outstanding receivables as at September 30, 2018 and has determined that the lifetime expected credit losses of the trade receivables was immaterial.

iii) Liquidity risk

Liquidity risk is the risk that ClearStream will not be able to meet its financial obligations as they come due. ClearStream's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. All of ClearStream's financial liabilities are current with the exception of its senior secured debentures and convertible secured debentures, which are both due in March 2026.

ClearStream's strategy is that long-term debt should always form part of its capital structure, assuming an appropriate cost. As existing debt approaches maturity, ClearStream will replace it with new debt, convert it into equity or refinance or restructure, depending on the state of the capital markets at the time.

ClearStream manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

14. Acquisition of AFX

On September 24 2018, ClearStream completed the acquisition, and thereby obtained control, of AFX Materials and Fabrication Ltd. (“AFX”) through the purchase of 100% of its share capital. Total consideration transferred was approximately \$2,450, comprised of \$1,812 of cash and up to \$638 in contingent consideration if AFX achieves a certain pre-determined cash flow target within one year of the transaction closing. Management has estimated the fair value of the contingent consideration based on acquisition-date forecasts which indicate the target is likely to be achieved.

The acquisition was accounted for following the acquisition method as at the closing date of September 24, 2018. Determinations of fair value often require management to make assumptions and estimates about future events. Changes in any of the assumptions or estimates used in determining the fair values of acquired assets and liabilities could impact the carrying amounts assigned accordingly. ClearStream has provisionally allocated the consideration transferred, subject to changes in estimates, as follows:

Accounts receivable	\$655
Other current assets	\$35
Property, plant and equipment	\$2,540
Accounts payable and accrued liabilities	\$(327)
Deferred income tax liability	\$(336)
Total identifiable net assets	\$2,567

The total identifiable net assets acquired were \$2,567 compared to total consideration transferred of \$2,450, resulting in a bargain purchase gain of \$117 upon acquisition. This has been recorded as other income within the Consolidated Statement of Loss.

15. Goodwill and intangible assets

ClearStream identified indicators of impairment at September 30, 2018 as a result of actual results for the nine months ended September 30, 2018 being materially below budget. Management therefore performed impairment tests as at September 30, 2018 at the cash-generating unit (“CGU”) level as well as at the operating segment level. This testing identified goodwill impairment in the Maintenance & Construction segment of approximately \$17,468.

The valuation techniques, significant assumptions and sensitivities applied in the impairment tests are described below:

Valuation technique

The recoverable amounts of ClearStream’s operating segments and CGUs were calculated based on fair value less costs of disposal, which is considered to be a level three estimate. The fair value less costs of disposal was determined through a discounted cash flow (“DCF”) approach for all CGUs.

The DCF method involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about earnings before taxes, interest, depreciation and amortization (“EBITDA”), capital expenditures, growth rates, working capital and discount rates.

Projected EBITDA and Capital Expenditures

Projected EBITDA and capital expenditures are based on ClearStream’s internal budget for the following year and take into consideration past experience, economic trends and market/industry trends at the time the budget is developed. The annual budget is developed during the fourth quarter of the current year. The budget is also updated quarterly by senior management and these updates are used to assess impairment during the year, if necessary. The anticipated future cash flows are updated to reflect any subsequent changes in demand for products and services.

Growth rate and terminal value

ClearStream used projected EBITDA and capital expenditures for the following year and applied a perpetual long-term growth rate of 2% thereafter. The perpetual growth rates are management’s estimate of long-term inflation and productivity growth in the industry and geographic locations in which it operates. In arriving at its forecasts, ClearStream considered past experience, inflation as well as industry and market trends.

Discount rate

ClearStream assumed post-tax discount rates of 11%-13% in order to calculate the present value of projected future cash flows. The discount rates represent a weighted average cost of capital ("WACC") for comparable companies operating in similar industries based on publicly available information for each CGU. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate, adjusted for risks specific to each CGU.

Management does not believe that any reasonably possible changes in key assumptions would result in the carrying amounts of its other CGUs (or groups of CGUs) exceeding their recoverable amounts.

16. 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 and Fabrication division specializes in the supply and fabrication 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 transactions. ClearStream accounts for intersegment sales based on transaction price.

	Maintenance and Construction	Wear and Fabrication	Corporate	Eliminations	Total
Three months ended September 30, 2018					
Revenue	67,829	18,807	-	(639)	85,996
Cost of revenues	(64,409)	(14,827)	-	639	(78,596)
Gross profit	3,420	3,980	-	-	7,400
Selling, general and administrative expenses	(214)	(150)	(5,265)	-	(5,629)
Stock based compensation recovery	-	-	12	-	12
Amortization of intangible assets	(588)	(163)	-	-	(751)
Depreciation	(786)	(327)	(95)	-	(1,208)
Impairment of goodwill	(17,468)	-	-	-	(17,468)
Income from equity investment	28	-	-	-	28
Interest expense	(80)	(15)	(2,942)	-	(3,037)
Restructuring costs	-	-	(43)	-	(43)
Other (loss) gain	-	(172)	117	-	(55)
Gain (loss) on sale of property, plant and equipment	262	2	(53)	-	211
Income (loss) before taxes	(15,425)	3,155	(8,269)	-	(20,540)
Income tax (expense) recovery - current	(57)	(123)	336	-	156
Income (loss) from continuing operations	(15,483)	3,032	(7,933)	-	(20,384)

	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Three months ended September 30, 2017					
Revenues	\$ 66,650	\$ 19,980	\$ -	\$ (703)	\$ 85,927
Cost of revenues	(62,814)	(17,181)	-	703	(79,292)
Gross profit	3,836	2,799	-	-	6,635
Selling, general and administrative expenses	(175)	(182)	(4,572)	-	(4,929)
Stock based compensation	-	-	80	-	80
Amortization of intangible assets	(648)	(213)	-	-	(861)
Depreciation	(659)	(588)	(91)	-	(1,338)
Income from equity investment	30	-	-	-	30
Interest expense	(62)	(39)	(5,369)	-	(5,470)
Gain from assets held for sale	-	-	105	-	105
Restructuring costs	-	-	(383)	-	(383)
Gain on sale of property, plant and equipment	8	3	-	-	11
Income (loss) before taxes	2,330	1,780	(10,230)	-	(6,120)
Income tax (expense) recovery - current	-	-	-	-	-
Income (loss) from continuing operations	\$ 2,330	\$ 1,780	\$ (10,230)	\$ -	\$ (6,120)

	Maintenance and Construction	Wear and Fabrication	Corporate	Eliminations	Total
Nine months ended September 30, 2018					
Revenue	255,548	45,584	-	(639)	300,492
Cost of revenues	(243,434)	(36,770)	-	639	(279,564)
Gross profit	12,114	8,814	-	-	20,928
Selling, general and administrative expenses	(819)	(420)	(13,559)	-	(14,798)
Stock based compensation expense	-	-	(143)	-	(143)
Amortization of intangible assets	(1,820)	(492)	-	-	(2,312)
Depreciation	(2,285)	(976)	(254)	-	(3,515)
Impairment of goodwill	(17,468)	-	-	-	(17,468)
Income from equity investment	132	-	-	-	132
Interest expense	(213)	(42)	(9,246)	-	(9,501)
Gain (loss) from assets held for sale	-	1,032	(275)	-	757
Restructuring costs	-	-	(127)	-	(127)
Other loss	-	(646)	117	-	(529)
Gain on sale of property, plant and equipment	262	2	12	-	276
Income (loss) before taxes	(10,096)	7,272	(23,475)	-	(26,300)
Income tax (expense) recovery - current	(188)	(317)	336	-	(169)
Income (loss) from continuing operations	(10,285)	6,955	(23,139)	-	(26,469)

	Maintenance and Construction	Wear, Fabrication and Transportation	Corporate	Eliminations	Total
Nine months ended September 30, 2017					
Revenues	\$ 219,496	\$ 57,336	\$ -	\$ (1,657)	\$ 275,175
Cost of revenues	(205,375)	(47,209)	-	1,657	(250,927)
Gross profit	14,121	10,127	-	-	24,248
Selling, general and administrative expenses	(947)	(519)	(12,386)	-	(13,852)
Stock based compensation	-	-	(579)	-	(579)
Amortization of intangible assets	(1,947)	(641)	-	-	(2,588)
Depreciation	(1,905)	(1,759)	(263)	-	(3,927)
Income from equity investment	160	-	-	-	160
Interest expense	(189)	(148)	(15,351)	-	(15,688)
Gain from assets held for sale	-	-	(287)	-	(287)
Restructuring costs	-	-	(827)	-	(827)
Gain on sale of property, plant and equipment	1,974	115	-	-	2,089
Income (loss) before taxes	11,267	7,175	(29,693)	-	(11,251)
Income tax (expense) recovery - current	-	-	(2)	-	(2)
Income (loss) from continuing operations	\$ 11,267	\$ 7,175	\$ (29,695)	\$ -	\$ (11,253)



ClearStream

ClearStream

Corporate Office



Suite 415, 311 - 6th Avenue SW
Calgary, Alberta, Canada
T2P 3H2



Tel: 587-318-0997



InvestorRelations@clearstreamenergy.ca

Visit us online



ClearStreamEnergy.ca