ClearStream

Third Quarter Financial Report *2019*

Helping Customers

Bringing Resources to Our World

MESSAGE TO SHAREHOLDERS

The third quarter of 2019 represented the first full quarter of results following the acquisition on June 28, 2019 of (i) certain assets of the production services division of AECOM Production Services Ltd. (the "AECOM PSD Business") and (ii) all of the issued and outstanding shares of Universal Weld Overlays Inc. ("UWO"). On July 2, 2019 ClearStream's maintenance and construction services business was combined with the AECOM PSD Business to form Flint, a division of ClearStream. Flint represents the largest segment of our business and the brand is well-known and respected in the marketplace.

As anticipated, the acquisitions of the AECOM PSD Business and UWO are extremely complimentary to our existing business as there is very little overlap in clients, geographic area served and service lines. We are pleased with recent contract renewals in our core market and with new business secured in our expanded market segments since the launch of UWO and Flint, divisions of ClearStream. This is a true reflection of our clients' confidence that we can offer a comprehensive scope of services with more than 30 asset integrity offerings throughout the complete project lifecycle.

Listed below are some key highlights from the third quarter:

- Revenues for the three months ended September 30, 2019 were $139.5 million, representing an increase of $35.8 million (35%) over Q2 2019 and $53.5 million (62%) over Q3 2018.
- Adjusted EBITDAS for the three months ended September 30, 2019 was $10.9 million, representing an increase of $4.4 million (70%) over Q2 2019 and $8.8 million (422%) over Q3 2018, which did not include any IFRS 16 impact.
- Adjusted EBITDAS (as a % of revenues) was 7.8% for the three months ended September 30, 2019, as compared to 6.0% in Q2 2019 and 2.4% in Q3 2018, which did not include any IFRS 16 impact.
- To provide additional working capital to support the growth in our business, we secured an additional term loan from Canso Investment Counsel Ltd in the amount of $17 million on September 10, 2019. We continue to work with our lenders on further amendments to our asset-based lending facility to support future growth in our business.

Although the oil and gas services industry in Canada remains highly competitive and market conditions continue to be uncertain, we have grown both organically and through the acquisitions during this quarter. On October 9, 2019, we announced several contract renewals and new project awards. The contract renewals are with major upstream, midstream and downstream energy companies in Canada, representing a 100% contract renewal rate for the fourth year in a row. Those renewals, together with new project awards from upstream and midstream energy and petrochemical companies, are estimated to generate approximately $80 million in new backlog.

Our clients continue to cautiously manage spending in light of the uncertain political and regulatory environment in Canada. Pricing levels in 2019 have remained stable relative to 2018. In order to better serve our clients, we will continue to focus on operational excellence through our employees' engagement in combination with business process automation and efficiencies. We strive to improve everyday our customers' facilities and operations in a safe, efficient and cost-effective manner.

As part of our strategic plan for diversity and inclusion and to provide significant benefits to the local communities, ClearStream established a joint venture with the Blueberry River First Nation in the first quarter of 2019. We are pleased with the progress made since the launch of the joint venture. Through the joint venture and other initiatives, we are establishing ClearStream / Flint as the leading industrial provider of asset integrity services in the growing market of Northeast British Columbia.

With the support from our stakeholders and financial partners, combined with our track record of strong operational execution, we are well positioned for continued growth and improved profitability going forward.

Thank you for your continued support.

Yves Paletta
Chief Executive Officer

November 5, 2019

Management's Discussion and Analysis

November 5, 2019

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, 2019 and 2018. 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, 2019 and 2018 (the "Interim Financial Statements") and the audited consolidated financial statements for the years ended December 31, 2018 and 2017 (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 5, 2019 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 5.

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 mainly located in Canada with some activity in the United States through UWO. 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, oil sands, and other industries.
Wear, Fabrication, and Environmental Services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate, and regulatory and environmental advisory services.
Corporate	ClearStream head office management, administrative, legal and interest expense costs.

Note: The Environmental Services division has been included in the Wear and Fabrication Services segment; the financial results for this division were not significant to overall financial results for this segment during the periods ending September 30, 2019.

Advisory regarding Forward-Looking information

Certain information included in this MD&A may constitute "forward-looking information" within the meaning of Canadian securities laws. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. Specifically, this MD&A contains forward-looking information relating to: our business plans, strategies and objectives; our plan to work with our lenders on further amendments to our asset-based lending facility to support future growth in our business; the funding of foreseeable business operating and recurring cash needs; and that demand for our services is expected to increase in late 2019 and 2020.

Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including, but not limited to, risks related to the integration of acquired businesses, conditions of capital markets, economic conditions, commodity prices, dependence on key personnel, interest rates, regulatory change, ability to meet working capital requirements and capital expenditure needs, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. Risks and uncertainties about ClearStream's business are more fully discussed in ClearStream's disclosure materials, including its annual information form and management's discussion and analysis of the operating and financial results, filed with the securities regulatory authorities in Canada and available at www.sedar.com. In formulating forward-looking information herein, management has assumed that business and economic conditions affecting ClearStream will continue substantially in the ordinary course, including, without limitation, with respect to general levels of economic activity, regulations, taxes and interest rates. Although the forward-looking information is based on what management of ClearStream consider to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect.

This forward-looking information is made as of the date of this MD&A, and ClearStream does not assume any obligation to update or revise it to reflect new events or circumstances except as required by law. Undue reliance should not be placed on forward-looking information. Forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes.

Non-standard measures

The terms ''EBITDAS'' and "Adjusted EBITDAS" (collectively, the ''Non-standard measures'') are financial measures used in this MD&A that are not standard measures under IFRS. ClearStream's method of calculating Non-standard measures may differ from the methods used by other issuers. Therefore, ClearStream's Non-standard measures, as presented may not be comparable to similar measures presented by other issuers.

EBITDAS refers to net earnings determined in accordance with IFRS, before depreciation and amortization, interest expense, income tax expense (recovery) and stock based compensation. EBITDAS is used by management and the directors of ClearStream as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDAS to monitor the performance of ClearStream's reportable segments and believes that in addition to net income or loss and cash provided by operating activities, EBITDAS is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures and income taxes. ClearStream has provided a reconciliation of income (loss) from continuing operations to EBITDAS in this MD&A.

Adjusted EBITDAS refers to EBITDAS excluding the gain on sale of assets held for sale, impairment of goodwill and intangible assets, restructuring costs, gain on sale of property plant and equipment, other loss, one time incurred expenses, impairment of right-of-use assets, bargain purchase gain and gain on remeasurement of right-of-use assets. 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 on ClearStream's website at www.clearstreamenergy.ca.

Third Quarter 2019 Performance

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue	$ 139,534	$ 85,996	$ 327,178	$ 300,492
Cost of revenue	(122,578)	(78,596)	(289,933)	(279,564)
Gross profit	16,956	7,400	37,245	20,928
Selling, general & administrative	(6,171)	(5,629)	(18,051)	(14,798)
Stock based compensation	-	12	(64)	(143)
Amortization of intangible assets	(154)	(751)	(710)	(2,312)
Amortization of deferred financing costs	-	-	-	-
Depreciation expense	(3,741)	(1,208)	(9,893)	(3,515)
Income from equity investment	71	28	96	132
Interest expense	(5,450)	(3,037)	(13,925)	(9,501)
Gain on sale of assets held for sale	-	-	-	757
Restructuring costs	(1,087)	(43)	(5,531)	(127)
Impairment of intangible assets & goodwill	-	(17,468)	-	(17,468)
Recovery (impairment) of right-of-use assets	362	-	(1,680)	-
Bargain purchase gain	-	-	12,272	-
Gain on remeasurement of right-of-use assets	-	-	127	-
Gain on sale of property, plant and equipment	140	211	247	276
Income tax recovery (expense) - current	-	156	-	(169)
Income tax recovery - deferred	-	-	3,663	-
Other loss	-	(55)	-	(529)
Income (loss) from continuing operations	926	(20,384)	3,795	(26,469)
Add:				
Amortization	154	751	710	2,312
Depreciation expense	3,741	1,208	9,893	3,515
Stock based compensation	-	(12)	64	143
Interest expense	5,450	3,037	13,925	9,501
Income tax (recovery) expense - current	-	(156)	-	169
Income tax recovery - deferred	-	-	(3,663)	-
EBITDAS	10,272	(15,557)	24,725	(10,829)
Gain on sale of assets held for sale	-	-	-	(757)
Gain on sale of property, plant and equipment	(140)	(211)	(247)	(276)
Impairment of intangible assets & goodwill	-	17,468	-	17,468
Restructuring costs	1,088	43	5,531	127
Other loss	-	55	-	529
One time incurred expenses	-	282	1,617	282
Recovery (impairment) of right-of-use assets	(362)	-	1,680	-
Bargain purchase gain	-	-	(12,272)	-
Gain on remeasurement of right-of-use assets	-	-	(127)	-
Adjusted EBITDAS	$ 10,858	$ 2,081	$ 20,907	$ 6,544

Summary Results ($000’s)

Selected Balance Sheet Accounts		
As at	September 30, 2019	December 31, 2018
Total assets	$ 262,409	$ 110,956
ABL facility	55,870	32,332
Senior secured debentures	96,840	96,746
Convertible secured debentures	-	852
Other secured borrowings	17,714	-
Shareholders' deficit	(12,855)	(58,437)

Third Quarter 2019 Results

Revenues for the three and nine months ended September 30, 2019 were $139,534 and $327,178 compared to $85,996 and $300,492 for the same periods in 2018, an increase of 62.3% and 8.7%, respectively. This increase in 2019, in comparison to 2018, is largely driven by the acquisition on June 28, 2019 of (i) certain assets of the production services division of AECOM Production Services Ltd. ("AECOM") and (ii) all of the issued and outstanding shares of Universal Weld Overlays Inc. ("UWO"). In addition, the 2019 revenue increase over 2018 is being driven by strong organic growth in the pre-existing Maintenance and Construction Services segment.

Gross profit for the three and nine months ended September 30, 2019 was $16,956 and $37,245, as compared to $7,400 and $20,928 for the same periods in 2018, an increase of 129.1% and 78.0%, respectively. The increase in gross profit is related to the acquisition of AECOM and UWO, the organic growth realized in the Maintenance and Construction Services segment, as well as the adoption of IFRS 16 (Leases), which results in a reduction of direct rent expense compared to 2018.

Selling, general and administrative ("SG&A") expenses for the three and nine months ended September 30, 2019 were $6,171 and $18,051, in comparison to $5,629 and $14,798 for the same periods in 2018. For the nine months ended, September 30, 2019, SG&A expenses, as a percentage of revenue, were 5.5% compared to 4.9% for the same period 2018. SG&A expenses as a percentage of revenue were impacted by a significant decrease in the ClearWater division's large plant turnaround revenue in 2019 as compared to 2018, as SG&A expenses are largely fixed. Also impacting SG&A expenses were transition costs, including professional fees incurred in the Company's growth initiatives and other expenses to support business process improvements designed to increase operational effectiveness and lower operating costs going forward. For the three months ended, September 30, 2019, SG&A expenses, as a percentage of revenue, were 4.4% compared to 6.5% for the same period 2018.

Non-cash items that impacted the 2019 results were depreciation and amortization. For the nine months ended September 30, 2019, depreciation and amortization expense was $9,893 compared to $5,827 for the same period in 2018. The increase in depreciation and amortization expense was largely due to the implementation of IFRS 16 and the impact of the large amount of assets that were acquired in the AECOM acquisition.

For the nine months ended September 30, 2019, interest expenses were $13,925 compared to $9,501 for the same period in 2018. Interest expenses increased by $4,424, of which $2,426 related to the impact of IFRS 16. The additional increase was due to an increase in the amount outstanding under the term loan facilities due to advances made in the fourth quarter of 2018 and the second quarter of 2019.

Restructuring costs of $5,531 were recorded during the nine months ended September 30, 2019, in comparison to $127 in 2018. These non-recurring restructuring costs are related to the AECOM and UWO acquisitions which closed on June 28, 2019, as well as severance and growth initiatives.

Income from continuing operations for the three and nine months ended September 30, 2019 was $926 and $3,795, in comparison to losses of $20,384 and $26,469 for the same periods in 2018. Nothwithstanding the significant improvement of gross profit, the income variance is also largely driven by the bargain purchase gain and deferred income tax recovery recognized through the AECOM and UWO acquisitions which closed on June 28, 2019, as well as the impairement of intangible assets & goodwill recorded in 2018.

The gain from discontinued operations was $2,027 for the nine months ended September 30, 2019, compared to a loss of $610 for the same period in 2018. The gain in 2019 includes the Company's share of an income tax reassessment won by Brompton resulting in a recovery of $3,250, offset by expenses that the Company continues to incur relating to the sale of businesses that it owned prior to March 2018. These expenses consist largely of legal, insurance, and consulting costs relating to the Quantum Murray earn-out and legal proceedings that existed prior to the sale of the business.

For the three and nine months ended September 30, 2019, Adjusted EBITDAS were $10,858 and $20,907, as compared to EBITDAs of $2,081 and $6,544 for the same periods in 2018. Adjusted EBITDAS for the nine months ended September 30, 2019 increased compared to 2018 due largely to the impact of increased activity from the AECOM and UWO acquisitions combined with organic growth in the pre-existing Maintenance and Construction Services segment.

SEGMENT OPERATING RESULTS

MAINTENANCE AND CONSTRUCTION SERVICES

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue	$ 124,848	$ 67,829	$ 279,491	$ 255,548
Cost of revenue	(113,073)	(64,409)	(257,219)	(243,434)
Gross profit	11,775	3,420	22,272	12,114
Selling, general & administrative	(830)	(214)	(1,662)	(819)
Amortization of intangible assets	(124)	(588)	(575)	(1,820)
Depreciation expense	(2,055)	(786)	(4,444)	(2,285)
Income from equity investment	71	28	96	132
Interest expense	(128)	(80)	(761)	(213)
Restructuring costs	-	-	(368)	-
Impairment of intangible assets & goodwill	-	(17,468)	-	(17,468)
Gain on sale of property, plant and equipment	139	262	247	262
Income tax expense	-	(57)	-	(188)
Income (loss) from continuing operations	8,848	(15,483)	14,804	(10,285)
Add:				
Amortization	124	588	575	1,820
Depreciation expense	2,055	786	4,444	2,285
Interest expense	128	80	761	213
Income tax expense	-	57	-	188
EBITDAS	11,155	(13,972)	20,585	(5,779)
Gain on sale of property, plant and equipment	(139)	(262)	(247)	(262)
Impairment of intangible assets & goodwill	-	17,468	-	17,468
Restructuring costs	-	-	368	-
Adjusted EBITDAS	$ 11,016	$ 3,234	$ 20,706	$ 11,427

REVENUES

Revenues for the Maintenance and Construction Services segment were $124,848 and $279,491 for the three and nine months ended September 30, 2019, compared to $67,829 and $255,548 for the same periods in the prior year, reflecting increases of 84.1% and 9.4%, respectively. These increases were due to the acquisition of AECOM assets on June 28, 2019 as well as organic growth in the pre-existing Maintenance and Construction Services segment. Excluding the impact of the AECOM acquisition, revenues for the three months ended September 30, 2019 were $85,420 compared to $67,829 for the same period in 2018 demonstrating the strong organic growth realized in the business as well.

GROSS PROFIT

Gross profit was $11,775 and $22,272 in the three and nine months ended September 30, 2019, compared to $3,420 and $12,114 for the same periods 2018. The gross profit increase was due to both the organic growth as well as the increased activity from the AECOM acquisition, through better absorption of indirect costs. In addition, the increase was partially due to the adoption of IFRS 16 on January 1, 2019, which resulted in decreased direct rent expense and increased nine month gross profit by $2,114.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Maintenance and Construction Services segment were $830 and $1,662 for the three and nine months ended September 30, 2019, compared to $214 and $819 for the same periods in 2018. SG&A expenses increased partially due to additional costs to support the revenue increases and the acquisition in this segment.

WEAR, FABRICATION AND ENVIRONMENTAL SERVICES

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue	$ 16,099	$ 18,807	$ 51,129	$ 45,584
Cost of revenue	(10,918)	(14,827)	(36,156)	(36,770)
Gross profit	5,181	3,980	14,973	8,814
Selling, general & administrative	(492)	(150)	(1,296)	(420)
Amortization of intangible assets	(29)	(163)	(135)	(492)
Depreciation expense	(1,161)	(327)	(3,038)	(976)
Interest expense	(138)	(15)	(427)	(42)
Gain on sale of assets held for sale	-	-	-	1,032
Recovery (impairment of right-of-use asset)	362	-	(14)	-
Restructuring costs	-	-	(962)	-
Loss on sale of property, plant and equipment	-	2	-	2
Income tax expense	-	(123)	-	(317)
Other loss	-	(172)	-	(646)
Income from continuing operations	3,723	3,032	9,101	6,955
Add:				
Amortization	29	163	135	492
Depreciation expense	1,161	327	3,038	976
Interest expense	138	15	427	42
Income tax expense	-	123	-	317
EBITDAS	5,051	3,660	12,701	8,782
Gain on sale of assets held for sale	-	-	-	(1,032)
Recovery (impairment of right-of-use asset)	(362)	-	14	-
Loss on sale of property, plant and equipment	-	(2)	-	(2)
Restructuring costs	-	-	962	-
Other loss	-	172	-	646
Adjusted EBITDAS	$ 4,689	$ 3,830	$ 13,677	$ 8,394

REVENUES

Revenues for this segment for the three and nine months ended September 30, 2019 were $16,099 and $51,129, compared to $18,807 and $45,584 for the same periods in 2018. The increase in revenue for the nine months ended September 30, 2019, was partially due to an overall increase in Wear Technology demand, including the additional capacity from the AFX acquisition completed in the third quarter of 2018, and the UWO acquisition completed in the second quarter of 2019. This increase offset the decrease in revenues in the Fabrication business in 2019.

GROSS PROFIT

Gross profit was $5,181 and $14,973 for the three and nine months ended September 30, 2019, compared to $3,980 and $8,814 for the same periods in 2018. The gross profit increase was partially due to the adoption of IFRS 16 on January 1, 2019, which decreased direct rent expense and increased gross profit by $2,119 for the nine months ended September 30, 2019. For the three months ended September 30, 2019, revenues were lower but gross profits were higher due to the closure of some of our loss making Fabrication facilities in the period, the UWO acquisition, and operational efficiencies in our Wear business.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Wear, Fabrication, and Environmental segment for the nine months ended September 30, 2019 increased compared to 2018 due to the AFX acquisition completed in the third quarter of 2018, the UWO acquisition completed in the second quarter of 2019, and additional resources required to support the increased activity in the Wear, Fabrication and Environmental segment.

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	
	2019	2018	2019	2018
Selling, general & administrative	$ (4,848)	$ (5,265)	$ (15,092)	$ (13,559)
Stock based compensation	-	12	(64)	(143)
Depreciation expense	(524)	(95)	(2,411)	(254)
Interest expense	(5,184)	(2,942)	(12,737)	(9,246)
Loss on sale of assets held for sale	-	-	-	(275)
Restructuring costs	(1,090)	(43)	(4,203)	(127)
Impairment of right-of-use assets	-	-	(1,666)	-
Bargain purchase gain	-	-	12,272	-
Gain on remeasurement of right-of-use assets	-	-	127	-
Gain on sale of property, plant and equipment	-	(53)	-	12
Income tax (expense) recovery - deferred	-	336	3,663	336
Loss from continuing operations	(11,647)	(8,050)	(20,112)	(23,256)
Add:				
Depreciation expense	524	95	2,411	254
Stock based compensation	-	(12)	64	143
Interest expense	5,184	2,942	12,737	9,246
Income tax expense (recovery) - deferred	-	(336)	(3,663)	(336)
EBITDAS	(5,938)	(5,361)	(8,562)	(13,949)
Loss on sale of assets held for sale	-	-	-	275
Gain on sale of property, plant and equipment	-	53	-	(12)
Restructuring costs	1,090	43	4,203	127
Impairment of right-of-use assets	-	-	1,666	-
Bargain purchase gain	-	-	(12,272)	-
Gain on remeasurement of right-of-use assets	-	-	(127)	-
One-time incurred expenses	-	282	1,617	282
Adjusted EBITDAS	$ (4,848)	$ (4,983)	$ (13,475)	$ (13,277)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses were $4,848 and $15,092 for the three and nine months ended September 30, 2019, compared to $5,265 and $13,559 for the same periods in 2018. The increase for the nine months ended September 30, 2019 was partially due to additional resources required to support the increased activity from organic growth recognized in the period as well as the preparation of AECOM and UWO acquisitions. Also impacting SG&A expenses were transition costs, including professional fees incurred in the Company's growth initiatives and other expenses to support business process improvements designed to increase operational effectiveness and lower operating costs going forward. For the three months ended September 30, 2019, SG&A expenses, as a percentage of total revenue, were 3.5% compared to 6.1% for the same period 2018 due to significantly higher revenue in the three months ended September 30, 2019 as well as IFRS 16 impacts in 2019 which results in a reduction of direct rent expense compared to 2018.

DISCONTINUED OPERATIONS

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
(Loss) gain from discontinued operations	$ (307)	$ (310)	$ 2,027	$ (610)

The gain from discontinued operations is due to the Company's share of an income tax reassessment won by Brompton resulting in a recovery of $3,250, offset by the expenses that the Company continues to incur relating to the sale of businesses that it owned prior to March 2018. These expenses consist largely of legal, insurance, and consulting costs relating to the calculation of the Quantum Murray earn-out and legal proceedings that existed prior to the sale of the business.

LIQUIDITY AND CAPITAL RESOURCES

	Nine months ended September 30	
	2019	2018
Cash used in operating activities	$ (27,229)	$ (16,641)
Cash (used in) provided by investing activities	(55,839)	1,779
Cash provided by financing activities	72,230	13,175
Decrease in cash	$ (10,838)	$ (1,687)

OPERATING ACTIVITIES

Cash used in continuing operations represents the net income reported during the nine months ended September 30, 2019 adjusted for interest and non-cash items, including depreciation, amortization and asset impairments. The cash provided by or used in discontinued operations includes onerous lease payments and the settlement of some of the legacy claims in 2019 and other expenses paid in 2019 relating to businesses that were sold prior to March 2018.

INVESTING ACTIVITIES

Cash used in investing activities consist of the AECOM and UWO acquisitions completed in the second quarter of 2019, which are expected to complement existing service lines and further broaden potential market opportunities.

AECOM Production Services Asset Purchase

On June 28, 2019, the Company acquired certain assets of the production services division of AECOM Production Services Ltd., a leading provider of mechanical, electrical and instrumentation services to upstream, midstream and downstream operators across Canada. The acquired assets include equipment and properties located throughout Alberta, as well as rights to the Flint brand in Canada.

The total purchase price of $39,216 consisted of cash and a post-closing working capital adjustment.

Universal Weld Overlay Share Purchase

On June 28, 2019, the Company acquired 100% of the issued and outstanding shares of Universal Weld Overlays Inc., a privately held specialty weld overlay fabricator that provides customers with protection of pre-fabricated components across the oil and gas, pulp and paper, petrochemical, power, pipeline, mining, subsea, aerospace and pressure vessel fabrication sectors. The transaction is expected to complement existing service lines in addition to expanding the Company's offerings to customers.

The total purchase price for UWO of $16,487 consisted of four components, including:

- Cash of $11,997;
- Deferred consideration of $1,250, which represents the fair value of three equal instalments of $433 due on June 28, 2020, 2021 and 2022;
- Expected working capital adjustment of $2,379, which is not included in deferred consideration;
- Earn-out contingent liability of $861, which represents the fair value of the expected payout to the sellers on June 28, 2023, based on management's best estimate of performance against agreed targets for average three-year EBITDA (as defined in the purchase and sale agreement).

During the three months ending September 30, 2019, the Company recognized $43 in accretion expense related to the earn-out contingent liability and $22 in deferred consideration recognized on the consolidated interim balance sheets.

Cost of Acquisition

	AECOM	UWO
Cash	$ 42,036	$ 11,997
Deferred consideration	-	1,250
Expected working capital adjustment	(2,820)	2,379
Earn-out contingent liability	-	861
	$ 39,216	**$ 16,487**

Identifiable Assets Acquired & Liabilities Assumed

The value of the assets and liabilities associated with both business combinations were not finalized by November 5, 2019 and are therefore preliminary figures. Any future changes in these amounts could affect the recorded cost of the acquisition and assets and liabilities acquired.

Bargain purchase gain

	AECOM	UWO
Cash	$ -	$ 76
Accounts receivable	34,839	3,630
Inventories	22	125
Accounts payable and accrued liabilities	(13,592)	(317)
Deferred revenue	(428)	-
Deferred tax liability	(3,662)	-
Property, plant and equipment	36,342	1,550
Goodwill and intangible assets	-	11,957
Lease liabilities	(2,033)	(534)
Bargain purchase gain	(12,272)	-
	$ 39,216	**$ 16,487**

The bargain purchase gain of $12,272 from the AECOM acquisition represents the difference between the fair value of the identifiable assets and liabilities acquired and the total purchase price paid to AECOM. The bargain purchase gain has arisen primarily due to the strategic decision of the sellers to exit these assets due to a variety of factors.

Impact on Operations

During the three months ending September 30, 2019, AECOM contributed $39,428 in revenues and $3,269 in earnings before interest, tax, depreciation, and amortization in the results of the Company. If the acquisition had taken place on January 1, 2019, management estimates that the AECOM operations would have contributed $105,274 to nine month pro forma revenue and $7,389 to nine month pro forma earnings before interest, tax, depreciation, and amortization. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effective on the date indicated, or of future results.

During the three months ending September 30, 2019, UWO contributed $3,221 in revenues and $1,312 in earnings before interest, tax, depreciation, and amortization in the results of the Company. If the acquisition had taken place on January 1, 2019, management estimates that the UWO operations would have contributed $10,776 to nine month pro forma revenue and $3,955 to pro forma earnings before interest, tax, depreciation, and amortization. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effective on the date indicated, or of future results.

Goodwill

The goodwill of $7,356 recognized as part of the UWO acquisition is mainly attributed to expected future revenue growth, future market development and synergies expected from the integration of UWO into the operations of the Company.

FINANCING ACTIVITIES

a. ABL Facility

On June 26, 2019, the Company established an asset-based lending facility (the “ABL Facility”) pursuant to the terms of the Third Amended and Restated Credit Agreement, which facility was comprised of a revolving credit facility providing for maximum borrowings of up to $50,000 (the “Revolving Facility”) and a term loan facility providing for maximum borrowings of up to $23,500 (the “Term Loan Facility”) received from Canso Investment Counsel Ltd (“Canso”).

Under the ABL Facility, the Company received access to an expanded Term Loan Facility providing up to $13,500 in additional financing and was permitted to execute the AECOM and UWO acquisitions, the private placements of 40,111 series preferred shares and settlement of interest obligations of $7,911 on its senior secured debentures, and redeem the outstanding convertible secured debentures. The Company incurred $2,070 in deferred financing costs associated with the amendment to the ABL Facility that will be amortized over the life of the amended agreement.

Pursuant to a First Amending Agreement dated September 10, 2019, the ABL Facility was amended to, among other things, increase the amount of the Term Loan Facility by $17,000 (to $40,500). On September 30, 2019, the Company was advanced $17,000 under the Term Loan Facility by Cabso, which was used to reduce the amount outstanding under the Revolving Facility. The Revolving Facility matures on March 23, 2020 and the Term Loan Facility mature 180 days thereafter. The Company continues to work with its lenders on a further amendments to the ABL Facility to support future growth in our business.

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at September 30, 2019 is $4,990 (December 31, 2018 - $29,690). The obligations under the ABL Facility are secured by, among other things, a first ranking lien on all of the existing and after acquired accounts receivable and inventories of the borrower and the other guarantors, being the Company and certain of its direct and indirect subsidiaries. The interest rate on the Revolving Facility is prime plus 2.5%, increasing to prime plus 4.0% if the Revolving Facility is more than 50% drawn.

As at September 30, 2019, $16,826 (December 31, 2018 - $22,961) was drawn on the Revolving Facility, and there were $2,900 (December 31, 2018 - $2,250) of letters of credit further reducing the amount available to be drawn.

At September 30, 2019, $40,500 (December 31, 2018 - $10,000) is outstanding under the Term Loan Facility. The Term Loan Facility are required to be used for specific purposes and cannot be redrawn once repaid. The interest rate on the Term Loan Facility is equal to the interest rate on the Revolving Facility plus 2.0%.

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

- ClearStream must maintain a monthly minimum cumulative EBITDA, as defined in the credit agreement, commencing on March 31, 2019 as follows:

Month ending	**Minimum cumulative EBITDA**
March 31, 2019	$1,158
April 30, 2019	$1,832
May 31, 2019	$3,251
June 30, 2019	$7,945
July 31, 2019	$8,515
August 31, 2019	$9,459
September 30, 2019	$11,330

- ClearStream must maintain a quarterly minimum cumulative EBITDA commencing on December 31, 2019 and each quarter thereafter of not less than $13,404
- ClearStream must not expend or become obligated for any capital expenditures in an aggregate amount exceeding $5,800 during the period commencing January 1, 2019 and ending February 29, 2020, and any fiscal year thereafter

At September 30, 2019, ClearStream was in compliance with all financial covenants under the ABL Facility.

b. Convertible Secured Debentures

On June 28, 2019, the Company used $1,275 drawn under the Term Loan Facility to extinguish the outstanding principal of the convertible secured debentures of $1,216 and all accrued interest.

c. Other Secured Borrowings

On June 26, 2019, the Company received $19,000 from two secured loans with the Business Development Bank of Canada (“BDC”) as a partial source of funds for the AECOM acquisition.

The $13,500 loan is repayable over 300 monthly payments of $45 from April 1, 2020 to March 1, 2045. The interest rate on the loan is the BDC Floating Base Rate less 1.0%. Interest accrues and is payable monthly. The Company allocated $195 in deferred financing costs to this loan that will be amortized over the life of the loan.

The $5,500 loan is repayable over 72 monthly payments of $76 from July 28, 2019 to June 28, 2025. The interest rate on the loan is the BDC Floating Base Rate less 0.5%. Interest accrues and is payable monthly. The Company allocated $85 in deferred financing costs to this loan that will be amortized over the life of the loan.

The loans are secured by a first security interest on the equipment acquired through the AECOM acquisition and a security interest in all other present and future property, subject to the priorities granted to existing lenders under the ABL Facility, senior secured debentures and other existing commitments.

The loans require the Company to maintain a Fixed Charge Coverage Ratio equal to or greater than 1.10:1.00 for each financial year commencing with the year ended December 31, 2019.

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.

Recently Adopted Accounting Pronouncements

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases. IFRS 16 provides a single accounting model for lessees that requires the recognition of assets and liabilities on the balance sheet for contracts that are, or contain, a lease. The accounting treatment for lessors remains substantially unchanged.

On transition, the Company elected to apply the modified retrospective approach. The Company has elected to use hindsight in determining the term of contracts that contain an option to extend or terminate a lease. The Company has elected to rely on its assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. The Company has elected to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On an ongoing basis, the Company has elected to not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less and leases of low value assets. The payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease liabilities have been measured using the present value of the remaining lease payments discounted at the Company's weighted average incremental borrowing rate of 8.12%. Right-of-use assets have initially been recognized at an amount equal to the lease liability.

The following table summarizes the difference between operating lease commitments disclosed applying IAS 17 at the previous annual reporting period and lease liabilities recognized in the consolidated statement of financial position on transition.

Operating lease commitments at December 31, 2018	$	46,978
Effect of discounting		(12,416)
Discounted Operating lease liabilities at January 1, 2019		34,562
Exemption for short-term leases		(418)
Exemption for low value leases		(54)
Additional leases identified through reassessment of leases under IFRS 16		874
Adjustments as a result of a different treatment of extension and termination options		11,342
Lease liabilities recognized at January 1, 2019		**46,306**
Consisting of:		
Current lease liabilities		6,823
Non-current lease liabilities		39,483
Operating lease commitments at December 31, 2018	$	**46,306**

The right-of-use assets recognized on transition consist of:

		January 1, 2019
Land	$	8,230
Building		32,945
Equipment		70
	$	**41,245**

At December 31, 2017, a property rental contract related to the Transportation cash generating unit was deemed onerous and therefore a provision of $5,778 was recorded. The remaining provision of $5,060 was reversed on transition and recognized as an impairment of right-of-use land assets at January 1, 2019.

CONTINGENCIES

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

Summary of Quarterly Results

($000s except unit amounts)

	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Revenues	$ 139,534	$ 103,690	$ 83,954	$ 77,840	$85,996	$129,702	$ 84,794	$ 81,972
Gross Margin	16,956	11,571	8,718	6,169	7,400	6,709	6,819	6,171
Gross Margin %	12.2%	11.2%	10.4%	7.9%	8.6%	5.2%	8.0%	7.5%
Net income (loss) from continuing operations	926	7,091	(4,222)	(3,153)	(20,834)	(3,097)	(2,988)	(21,207)
Net income (loss)	619	6,785	(1,580)	(2,543)	(20,694)	(3,210)	(3,175)	(22,345)
Net income (loss) per share from continuing operations	0.01	0.06	(0.04)	(0.03)	(0.19)	(0.03)	(0.03)	(0.19)
Net income (loss) per share	0.01	0.06	(0.01)	(0.02)	(0.19)	(0.03)	(0.03)	(0.20)

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

As of September 30, 2019, directors, officers and key employees beneficially held an aggregate of 11,873,654 common shares or 10.81% on a fully diluted basis. Two leases for property, with quarterly rents of $78 and $100 are with a landlord in which certain executives of ClearStream hold an indirect minority interest.

On June 27, 2019, the Company recognized termination benefits of $1,373, representing the fair value of expected payments to a Director in connection with the past service. Under the agreement, the Director will receive quarterly payments from June 30, 2019 to December 31, 2021. At September 30, 2019, $1,020 was included in accounts payable and accrued liabilities.

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 September 30, 2019, there were a 109,941,241 common shares, 127,565 Series 1 Preferred Shares and 40,111 Series 2 Preferred Shares issued and outstanding.

On June 27, 2019, ClearStream issued 40,111 Series 2 Preferred Shares to Canso, in its capacity as portfolio manager for and on behalf of certain accounts that it manages, in exchange for $32,200 in cash, which was used to partially finance the acquisitions during the period and settlement of interest obligations of $7,911 on the senior secured debentures due June 30, 2019 and December 31, 2019. The $4,007 to settle the future obligation is included in prepaid expenses and other.

The Series 2 preferred shares provide holders a 10% fixed cumulative preferential dividend that is only required to be settled in cash upon the sole determination of ClearStream's Board of Directors. Accrued but unpaid dividends are convertible into additional preferred shares with a value of $1,000 per share under certain circumstances. Holders of the preferred shares have the right, as their option, to convert their preferred shares into common shares at a price of $0.10 per common share, subject to adjustments in certain circumstances.

The Series 2 preferred shares are redeemable by the Company for cash at 100% of the purchase price for such shares, plus accrued but unpaid dividends, once all of the senior secured debentures have been repaid, as well as in the event of certain change of control transactions. As a result of none of the components of the preferred shares creating an unavoidable obligation to pay cash, the preferred shares are accounted for within shareholders' deficit, net of transaction costs.

OUTLOOK

Overall market conditions continue to be uncertain, in light of commodity pricing volatility and lack of infrastructure build up to bring product to markets. Therefore upstream, midstream and downstream companies are likely to maintain spending discipline for capital projects and focus instead on operational efficiencies and asset integrity. However, with the recent acquisitions generating more comprehensive service offerings, an increase in demand for our maintenance, turnaround, wear and environmental service line services is expected in late 2019 and 2020.

The AECOM and UWO acquisitions complement existing service lines in addition to adding new service lines to further broaden business opportunities. Combined, the acquisitions are expected to:

- Expand the Customer Base – the acquisitions will provide the opportunity to work with some of the largest industrial and energy companies operating in Canada and the United States, which will provide existing and new clientele an enhanced integrated offering.
- Enhance Operational Efficiencies – multiple near-term synergies and cost saving opportunities have been identified that may further enhance the economics of the Transactions.
- Increase Financial Flexibility – the combination of the acquisitions and the related financings provides improved short-and long-term balance sheet flexibility.
- Improve Local Community Presence and Customer Service – the AECOM acquisition will increase the number of district offices and capabilities for maintenance, turnaround and construction services in Western Canada while leveraging the well-recognized Flint brand.
- Complement Existing Service Lines – the UWO Transaction will complement the well-established Wear Technologies products and services for abrasion and corrosion resistance applications while leveraging the well-recognized UWO brand.

Improving momentum for maintenance and turnaround demand, combined with the successful integration of the acquisitions, are expected to result in an increase in 2019 profitability compared to 2018.

RISK FACTORS

There are no updates to ClearStream's risk factors. For further discussion, refer to ClearStream's MD&A or AIF dated March 21, 2019 for the year ended December 31, 2018.

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52- 109"), issued by the CSA requires CEOs and 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, 2018 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, 2019 with securities regulators, including this MD&A and the accompanying unaudited 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 June 30, 2019 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting. Furthermore, ClearStream's management, including its CEO and CFO, have evaluated the effectiveness of ClearStream's internal control over financial reporting have concluded that those controls were effective. 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 relating to ClearStream including ClearStream's AIF is on SEDAR at www.sedar.com or on our website www.clearstreamenergy.ca

ClearStream

Condensed Consolidated Interim Financial Statements for

Three and nine months ended September 30, 2019 and 2018

Helping Customers

Bringing Resources to Our World

CLEARSTREAM ENERGY SERVICES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED)

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Notes	September 30, 2019	December 31, 2018
Assets			
Cash		$ -	$ 10,838
Restricted cash		984	980
Accounts receivable		145,681	59,715
Inventories		8,970	5,734
Prepaid expenses and other	3	4,030	2,046
Total current assets		159,665	79,313
Property, plant and equipment, net	4	82,861	23,520
Goodwill and intangible assets	2	19,350	7,685
Long-term investments		533	438
Total assets		**$ 262,409**	**$ 110,956**
Liabilities and Shareholders' Equity			
Bank indebtedness		$ 8,936	$ -
Accounts payable and accrued liabilities		51,631	28,417
Deferred revenue		-	21
Deferred consideration	2	3,651	-
Earn-out contingent liability	2	1,541	638
ABL facility	5a	55,870	32,332
Current portion of lease liabilities	1b	9,416	1,777
Current portion of provision	7	735	1,072
Current portion of other secured borrowings	5d	955	-
Total current liabilities		132,735	64,257
Lease liabilities	1b	27,975	3,549
Other secured borrowings	5d	17,714	-
Provision		-	3,989
Senior secured debentures	5b	96,840	96,746
Convertible secured debentures	5c	-	852
Total liabilities		$ 275,264	$ 169,393
Common shares		462,036	462,036
Preferred shares	6	141,951	102,203
Contributed surplus		20,728	20,716
Deficit		(637,570)	(643,392)
Total shareholders' deficit		(12,855)	(58,437)
Total liabilities and shareholders' deficit		**$ 262,409**	**$ 110,956**

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

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(In thousands of Canadian dollars)

(Unaudited)

	Notes	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Revenue	9	$ 139,534	$ 85,996	$ 327,178	$ 300,492
Cost of revenue		(122,578)	(78,596)	(289,933)	(279,564)
Gross profit		16,956	7,400	37,245	20,928
Selling, general and administrative expenses	8, 10	(6,171)	(5,629)	(18,051)	(14,798)
Share based compensation		-	12	(64)	(143)
Amortization of intangible assets		(154)	(751)	(710)	(2,312)
Depreciation expense	4	(3,741)	(1,208)	(9,893)	(3,515)
Income from equity investment		71	28	96	132
Interest expense		(5,450)	(3,037)	(13,925)	(9,501)
Gain on sale of assets held for sale		-	-	-	757
Restructuring costs	2, 7	(1,087)	(43)	(5,531)	(127)
Other loss		-	(55)	-	(529)
Impairment of goodwill and intangible assets		-	(17,468)	-	(17,468)
Recovery (impairment) of right-of-use assets	4	362	-	(1,680)	-
Bargain purchase gain	2	-	-	12,272	-
Gain on remeasurement of right-of-use assets	4	-	-	127	-
Gain on sale of property, plant and equipment	4	140	211	247	276
Income (loss) from continuing operations before taxes		926	(20,540)	132	(26,300)
Income tax recovery (expense) - current		-	156	-	(169)
Income tax recovery - deferred		-	-	3,663	-
Income (loss) from continuing operations		926	(20,384)	3,795	(26,469)
(Loss) gain from discontinued operations (net of income taxes)		(307)	(310)	2,027	(610)
Net income (loss) and comprehensive income (loss)		$ 619	$ (20,694)	$ 5,822	$ (27,079)
Net income (loss) per share (dollars)					
Basic & diluted:					
Continuing operations		$ 0.01	$ (0.19)	$ 0.03	$ (0.25)
Discontinued operations		$ (0.00)	$ (0.00)	$ 0.02	$ (0.01)
Net income (loss)		$ 0.01	$ (0.19)	$ 0.05	$ (0.25)

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

CLEARSTREAM ENERGY SERVICES INC.

Consolidated Interim Statements of Shareholders' Deficit

(In thousands of Canadian dollars, except number of shares)

(Unaudited)

	Notes	Number of shares		Common Shares		Preferred Shares		Contributed Surplus		Deficit		Total Shareholders' Deficit
At December 31, 2018		109,941,241	$	462,036	$	102,203	$	20,716	$	(643,392)	$	(58,437)
Net income		-		-		-		-		5,822		5,822
Issuance of preferred shares	6	-		-		39,748		-		-		39,748
Stock based compensation		-		-		-		12		-		12
At September 30, 2019		109,941,241	$	462,036	$	141,951	$	20,728	$	(637,571)	$	(12,855)

	Notes	Number of shares		Common Shares		Preferred Shares		Contributed Surplus		Deficit		Total Shareholders' Deficit
At 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		-		-		102,130		-		-		102,130
Equity component of convertible debentures		-		(6,994)		-		6,994		-		-
Gain on debt extinguishment		-		-		-		10,713		-		10,713
Impact of transition to IFRS 15		-		-		-		-		(949)		(949)
At September 30, 2018		109,941,241	$	462,036	$	102,130	$	20,881	$	(638,904)	$	(53,857)

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)

	Notes	Nine months ended September 30 2019	2018
Operating activities:			
Net income		$ 5,822	$ (27,079)
(Gain) loss from discontinued operations (net of income tax)		(2,027)	610
Adjustments for:			
Stock based compensation		64	143
Amortization of intangible assets		710	2,312
Amortization of deferred financing costs		633	453
Income from equity investments		(96)	(132)
Depreciation expense	4	9,893	3,515
Accretion expense		427	234
Other loss		-	530
Impairment of goodwill		-	17,468
Onerous lease payments		-	(1,278)
Gain on sale of assets held for sale		-	(757)
Gain on sale of property, plant and equipment	4	(247)	(276)
Gain on remeasurement of right-of-use assets	4	(127)	-
Impairment of right-of-use assets	4	1,680	-
Bargain purchase gain	2	(12,272)	-
Deferred income tax recovery		(3,663)	(336)
Changes in non-cash working capital		(30,789)	(11,438)
Change in provision	7	735	
Cash generated from (used in) discontinued operations		2,027	(610)
Cash flow used in operating activities		$ (27,229)	$ (16,641)
Investing activities:			
Acquisitions, net of cash acquired	2	(54,033)	-
Purchase of property, plant and equipment	4	(3,203)	(806)
Proceeds on disposal of property, plant and equipment	4	1,767	832
Purchase of intangible assets		(370)	-
Acquisition of AFX			(1,812)
Proceeds on the disposition of businesses		-	4,625
Transaction costs		-	(1,060)
Cash flow (used in) provided by investing activities		$ (55,839)	$ 1,779
Financing activities:			
Increase in restricted cash		(4)	(4,077)
Increase in bank indebtedness		8,936	-
Proceeds from the issuance of preferred shares	6	32,200	19,000
Proceeds from the issuance of other secured borrowings	5d	19,000	-
Proceeds from the issuance of ABL term loans	5a	30,500	-
Repayment of ABL facility	5a	(6,960)	5,000
Repayment of senior secured debentures	5b	-	(2,340)
Repayment of convertible debentures	5c	(1,216)	-
Refinancing fees	5	(2,637)	(3,677)
Repayment of obligations under lease liability	1b	(7,589)	(1,823)
Changes in non-cash working capital		-	1,092
Cash flow provided by financing activities		$ 72,230	$ 13,175
Decrease in cash		(10,838)	(1,687)
Cash, beginning of the period		10,838	4,649
Cash, end of the period		$ -	$ 2,962

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

CLEARSTREAM ENERGY SERVICES INC.

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

Reporting Entity

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 Suite 1650, 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.

These condensed consolidated interim financial statements were authorized for issuance in accordance with a resolution of the Board of Directors of ClearStream on November 5, 2019.

The Maintenance and Construction services segment’s revenues and profits are impacted by seasonality. Peak business activity for this segment is typically highest during the second and third quarters when spring and fall facility shutdowns take place.

1. Significant accounting policies

a. Basis of Presentation

These condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Financial Accounting Standards Board (“IASB”). Accordingly, certain information normally disclosed in annual consolidated financial statements, have been omitted or condensed. The interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2018. 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 Note 1 (b) 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 the previous periods presented herein have been reclassified to conform to the current period presentation.

b. Recently Adopted Accounting Pronouncements

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases. IFRS 16 provides a single accounting model for lessees that requires the recognition of assets and liabilities on the balance sheet for contracts that are, or contain, a lease. The accounting treatment for lessors remains substantially unchanged.

On transition, the Company elected to apply the modified retrospective approach. The Company has elected to use hindsight in determining the term of contracts that contain an option to extend or terminate a lease. The Company has elected to rely on its assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review. The Company has elected to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On an ongoing basis, the Company has elected to not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less and leases of low value assets. The payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

Lease liabilities have been measured using the present value of the remaining lease payments discounted at the Company's weighted average incremental borrowing rate of 8.12%. Right-of-use assets have initially been recognized at an amount equal to the lease liability.

The following table summarizes the difference between operating lease commitments disclosed applying IAS 17-Leases at the previous annual reporting period and lease liabilities recognized in the consolidated Balance Sheet on transition.

Operating lease commitments at December 31, 2018	**$**	**46,978**
Effect of discounting		(12,416)
Discounted Operating lease liabilities at January 1, 2019		34,562
Exemption for short term leases		(418)
Exemption for low value leases		(54)
Additional leases identified through reassessment of leases under IFRS 16		874
Adjustments as a result of a different treatment of extension and termination options		11,342
Lease liabilities recognized at January 1, 2019	**$**	**46,306**
Consisting of:		
Current lease liabilities		6,823
Non current lease liabilities		39,483
Operating lease commitments	**$**	**46,306**

The right-of-use assets recognized on transition consist of:

		January 1, 2019
Land		8,230
Building		32,945
Equipment		70
	$	**41,245**

At December 31, 2017, a property rental contract related to the Transportation cash generating unit was deemed onerous and therefore a provision of $5,778 was recorded. The remaining provision of $5,060 was reversed on transition and recognized as an impairment of right-of-use land assets at January 1, 2019.

Update to Significant Accounting Policies

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

<u>Leases as a Lessee</u>

The Company assesses whether a contract is or contains a lease at inception. The Company recognizes a right-of-use asset and corresponding lease liability with respect to all lease contracts in which it is a lessee, except for leases with a term of twelve months or less or leases of low value assets.

A right-of-use asset and lease liability is recognized on the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, less any lease incentives received. Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, including periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date. The associated lease payments are discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has elected to not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less, do not contain a purchase option and leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases as a Lessor

The Company enters into sub-lease agreements as a lessor with respect to some of its buildings. When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Leases for which the Company is a lessor are classified as a finance or operating lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the lease. Amounts due from lessees under finance leases are recognized as receivables of the Company's net investment in the leases. Finance lease income is allocated to reflect a constant periodic gain over the life of the leases.

c. New standards and interpretations not yet adopted

As at the date of the authorization of these interim financial statements, there were no new standards, interpretations or amendments relevant to the Company's operations issued that were not yet effective for the period ended September 30, 2019 and have not been applied in preparing these interim financial statements.

2. Business Combinations

During the nine months ended September 30, 2019, the Company entered into two business combinations expected to complement existing service lines and further broaden potential market opportunities.

AECOM Production Services Asset Purchase

On June 28, 2019, the Company acquired certain assets of the production services division of AECOM Production Services Ltd. ("AECOM"), a leading provider of mechanical, electrical and instrumentation services to upstream, midstream and downstream operators across Canada. The acquired assets include equipment and properties located throughout Alberta, as well as rights to the Flint brand in Canada.

The total purchase price of $39,216 consisted of cash and a post-closing working capital adjustment.

Universal Weld Overlay Share Purchase

On June 28, 2019, the Company acquired 100% of the issued and outstanding shares of Universal Weld Overlays Inc.("UWO"), a privately held specialty weld overlay fabricator that provides customers with protection of pre-fabricated components across the oil and gas, pulp and paper, petrochemical, power, pipeline, mining, subsea, aerospace and pressure vessel fabrication sectors. The transaction is expected to complement existing service lines in addition to expanding the Company's offerings to customers.

The total purchase price for UWO of $16,487 consisted of four components, including:

- Cash of $11,997;
- Deferred consideration of $1,250, which represents the fair value of three equal instalments of $433 due on June 28, 2020, 2021 and 2022;
- Expected working capital adjustment of $2,379, which is not included in deferred consideration;
- Earn-out contingent liability of $861, which represents the fair value of the expected payout to the sellers on June 28, 2023, based on management's best estimate of performance against agreed targets for average three-year EBITDA (as defined in the purchase and sale agreement).

During the three months ending September 30, 2019, the Company recognized $43 in accretion expense related to the earn-out contingent liability and $22 in deferred consideration on the consolidated interim balance sheet.

Cost of Acquisition

	AECOM	UWO
Cash	$ 42,036	$ 11,997
Deferred consideration	-	1,250
Expected working capital adjustment	(2,820)	2,379
Earn-out contingent liability	-	861
	$ 39,216	**$ 16,487**

Identifiable Assets Acquired & Liabilities Assumed

	AECOM	UWO
Cash	$ -	$ 76
Accounts receivable	34,839	3,630
Inventories	22	125
Accounts payable and accrued liabilities	(13,592)	(317)
Deferred revenue	(428)	-
Deferred tax liability	(3,662)	-
Property, plant and equipment	36,342	1,550
Goodwill and intangible assets	-	11,957
Lease liabilities	(2,033)	(534)
Bargain purchase gain	(12,272)	-
	$ 39,216	**$ 16,487**

The value of the assets and liabilities associated with both business combinations were not finalized by November 5, 2019 and are therefore preliminary figures. Any future changes in these amounts could affect the recorded cost of the acquisition and assets and liabilities acquired.

The purchase price allocation for both transactions reflects various fair value estimates and analysis which are subject to change within the measurement period. The primary areas subject to change relate to fair values of certain tangible assets, the valuation of goodwill and intangible assets acquired from UWO, and the bargain purchase gain recognized in the acquisition of AECOM assets.

Measurement Period Adjustments

The Company has updated the purchase price allocation for AECOM based on new information about the working capital and lease obligations acquired in the transaction. During the three months ending September 30, 2019, the Company recorded measurement period adjustments to decrease various working capital accounts by $2,820, and recognize $2,033 in right-of-use assets and lease liabilities.

The Company has updated the purchase price allocation for UWO based on new information about the working capital and lease obligations acquired in the transaction. During the three months ending September 30, 2019, the Company recorded measurement period adjustments to increase various working capital accounts by $311, and recognize $534 in right-of-use assets and lease liabilities and decrease goodwill and intangible assets by $245.

Bargain purchase gain

The bargain purchase gain of $12,272 from the AECOM acquisition represents the difference between the fair value of the identifiable assets and liabilities acquired and the total purchase price paid to AECOM. The bargain purchase gain has arisen primarily due to the strategic decision of the sellers to exit these assets due to a variety of factors.

Goodwill

The goodwill of $7,356 recognized as part of the UWO acquisition is mainly attributed to expected future revenue growth, future market development and synergies expected from the integration of UWO into the operations of the Company.

Impact on Operations

During the three months ending September 30, 2019, AECOM contributed $39,428 in revenues and $3,269 in earnings before interest, tax, depreciation, and amortization in the results of the Company. If the acquisition had taken place on January 1, 2019, management estimates that the AECOM operations would have contributed $105,274 to nine month pro forma revenue and $7,389 to nine month pro forma earnings before interest, tax, depreciation, and amortization. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effective on the date indicated, or of future results.

During the three months ending September 30, 2019, UWO contributed $3,221 in revenues and $1,312 in earnings before interest, tax, depreciation, and amortization in the results of the Company. If the acquisition had taken place on January 1, 2019, management estimates that the UWO operations would have contributed $10,776 to nine month pro forma revenue and $3,955 to pro forma earnings before interest, tax, depreciation, and amortization. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effective on the date indicated, or of future results.

3. Prepaid expenses and other

Prepaid expenses and other of $4,030 at September 30, 2019 (December 31, 2018 - $2,046) include prepaid interest on the senior secured debentures up to December 31, 2019 of $1,978.

	September 30, 2019	December 31, 2018
Prepaid expenses and other	$ 2,052	$ 2,046
Prepaid interest on senior secured debentures	1,978	-
Total prepaid expenses and other	$ 4,030	$ 2,046

4. Property, plant and equipment

Property, plant and equipment acquired during the period includes right-of-use buildings and equipment of $1,319, and associated lease liabilities of $1,248, recognized on the date of acquisition.

	September 30, 2019
Cost as at December 31, 2018	$ 76,691
IFRS 16 Transition adjustments as at January 1, 2019 (Note 1)	41,245
Remeasurement of right-of-use assets	(9,906)
Acquisitions (Note 2)	37,892
Additions	3,246
Disposals	(7,879)
Cost as at September 30, 2019	$ 141,289
Accumulated depreciation as at January 1, 2019	53,171
Depreciation	9,893
Disposals	(6,316)
Impairment	1,680
Accumulated depreciation as at September 30, 2019	$ 58,429
Net book value, December 31, 2018	23,520
Net book value, September 30, 2019	$ 82,861

Right-of-use assets consists of the following:

	Land and buildings	Furniture, tools and equipment	Automotive and heavy equipment	Total
Cost				
Balance as at January 1, 2019	$ 41,176	$ 69	$ -	$ 41,245
Remeasurement	(9,906)	-	-	(9,906)
Acquisitions	1,319	-	1,248	2,567
Additions	-	-	-	-
Disposals	-	-	-	-
Impairment	(1,666)	-	-	(1,666)
Balance as at September 30, 2019	**30,923**	**69**	**1,248**	**32,240**
Accumulated Depreciation				
Balance as at January 1, 2019	-	-	-	-
Depreciation expense	5,415	23	106	5,545
Balance as at September 30, 2019	**5,415**	**23**	**106**	**5,545**
Carrying amount as at September 30, 2019	**$ 25,508**	**$ 46**	**$ 1,142**	**$ 26,695**

Reassessment of renewal option and impairment

During the nine months ended September 30, 2019, the Company reassessed plans to renew its property leases and determined that it would no longer execute the renewal option on several leases due to changes in its strategic operating plans. As a result, the associated right-of-use buildings and lease liabilities were reduced $9,906 and $10,070 on remeasurement, including $3,925 and $3,962 recognized in the current period.

During the nine months ended September 30, 2019, the Company recognized an impairment charge of $1,680 representing the carrying value of right-of-use buildings that hold operations closed prior to the expiry of associated property leases. The recoverable value was determined to be $nil based on the value-in-use at the closure dates. The right-of-use buildings impaired are included in the Wear, Fabrication and Environmental segment.

5. Refinancing transactions

a. ABL Facility

On June 26, 2019, the Company established an asset-based lending facility (the "ABL Facility") pursuant to the terms of the Third Amended and Restated Credit Agreement, which facility was comprised of a revolving credit facility providing for maximum borrowings of up to $50,000 (the "Revolving Facility") and a term loan facility providing for maximum borrowings of up to $23,500 (the "Term Loan Facility") received from Canso Investment Counsel Ltd ("Canso").

Under the ABL Facility, the Company received access to an expanded Term Loan Facility providing up to $13,500 in additional financing and was permitted to execute the acquisitions disclosed in Note 2, the private placements and interest settlement disclosed in Note 6, and redeem the outstanding convertible secured debentures. The Company incurred $2,070 in deferred financing costs associated with the amendment to the ABL Facility that will be amortized over the life of the amended agreement.

Pursuant to a First Amending Agreement dated September 10, 2019, the ABL Facility was amended to, among other things, increase the amount of the Term Loan Facility by $17,000 (to $40,500). On September 30, 2019, the Company was advanced $17,000 under the Term Loan Facility by Canso, which was used to reduce the amount outstanding under the Revolving Facility. The Revolving Facility matures on March 23, 2020 and the Term Loan Facility matures 180 days thereafter. The Company continues to work with its lenders on a further amendment that would, among other things, increase the maximum amount available under the Revolving Facility to $55,000 (from $50,000).

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at September 30, 2019 is $44,990 (December 31, 2018 - $29,690). The obligations under the ABL Facility are secured by, among other things, a first ranking lien on all of the existing and after acquired accounts receivable and inventories of the borrower and the other guarantors, being the Company and certain of its direct and indirect subsidiaries. The interest rate on the Revolving Facility is prime plus 2.5%, increasing to prime plus 4.0% if the Revolving Facility is more than 50% drawn.

As at September 30, 2019, $16,826 (December 31, 2018 - $22,961) was drawn on the Revolving Facility, and there were $2,900 (December 31, 2018 - $2,250) of letters of credit further reducing the amount available to be drawn.

At September 30, 2019, $40,500 (December 31, 2018 - $10,000) is outstanding under the Term Loan Facility. The Term Loan Facility is required to be used for specific purposes and cannot be redrawn once repaid. The interest rate on the Term Loan Facility is equal to the interest rate on the Revolving Facility plus 2.0%.

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

- ClearStream must maintain a monthly minimum cumulative EBITDA as defined in the credit agreement commencing on March 31, 2019 as follows:

Month ending	Minimum cumulative EBITDA
March 31, 2019	$1,158
April 30, 2019	$1,832
May 31, 2019	$3,251
June 30, 2019	$7,945
July 31, 2019	$8,515
August 31, 2019	$9,459
September 30, 2019	$11,330

- ClearStream must maintain a quarterly minimum cumulative EBITDA commencing on December 31, 2019 and each quarter thereafter of not less than $13,404
- ClearStream must not expend or become obligated for any capital expenditures in an aggregate amount exceeding $5,800 during the period commencing January 1, 2019 and ending February 29, 2020, and any fiscal year thereafter

At September 30, 2019, ClearStream was in compliance with all financial covenants under the ABL Facility.

b. Senior Secured Debentures

On June 26, 2019, the Company signed the Fourth Supplemental Senior Secured Indenture (with written consent from holders of 100% of the outstanding principal amount), which permitted the Company to execute the acquisitions disclosed in Note 2, the private placements and interest settlement disclosed in Note 6, and redeem the outstanding convertible secured debentures.

c. Convertible Secured Debentures

On June 28, 2019, the Company used $1,275 drawn under the Term Loan Facility to extinguish the outstanding principal of the convertible secured debentures of $1,216 and all accrued interest.

d. Other Secured Borrowings

On June 26, 2019, the Company received $19,000 from two secured loans with the Business Development Bank of Canada (“BDC”) as a partial source of funds for the AECOM acquisition.

The $13,500 loan is repayable over 300 monthly payments of $45 from April 1, 2020 to March 1, 2045. The interest rate on the loan is the BDC Floating Base Rate less 1.0%. Interest accrues and is payable monthly. The Company allocated $195 in deferred financing costs to this loan that will be amortized over the life of the loan.

The $5,500 loan is repayable over 72 monthly payments of $76 from July 28, 2019 to June 28, 2025. The interest rate on the loan is the BDC Floating Base Rate less 0.5%. Interest accrues and is payable monthly. The Company allocated $85 in deferred financing costs to this loan that will be amortized over the life of the loan.

The loans are secured by a first security interest on the equipment acquired through the AECOM acquisition and a security interest in all other present and future property, subject to the priorities granted to existing lenders under the ABL Facility, senior secured debentures and other existing commitments.

The loans require the Company to maintain a Fixed Charge Coverage Ratio equal to or greater than 1.10:1.00 for each financial year commencing with the year ended December 31, 2019.

6. Preferred shares

On June 27, 2019, ClearStream issued 40,111 Series 2 preferred shares to Investment Counsel Ltd., in its capacity as portfolio manager for and on behalf of certain accounts that it manages, in exchange for $32,200 in cash used to partially finance the acquisitions during the period and settlement of interest obligations of $7,911 on the senior secured debentures due June 30, 2019 and December 31, 2019. The $1,978 to settle the future obligation is included in prepaid expenses and other (Note 3).

The Series 2 preferred shares provide holders a 10% fixed cumulative preferential dividend that is only required to be settled in cash upon the sole determination of ClearStream's Board of Directors. Accrued but unpaid dividends are convertible into additional preferred shares with a value of $1,000 per share under certain circumstances. Holders of the preferred shares have the right, as their option, to convert their preferred shares into common shares at a price of $0.10 per common share, subject to adjustments in certain circumstances.

The Series 2 preferred shares are redeemable by the Company for cash at 100% of the purchase price for such shares, plus accrued but unpaid dividends, once all of the senior secured debentures have been repaid, as well as in the event of certain change of control transactions. As the terms of the preferred shares do not create an unavoidable obligation to pay cash, the preferred shares are accounted for within shareholders' deficit, net of transaction costs.

7. Provisions

For the nine months ended September 30, 2019, $1,274 was recognized as a restructuring provision in connection with the closure of two business locations as part of a formal plan to reorganize the Company following the AECOM and UWO acquisitions. The estimated costs recognized mainly consist of salaries and termination benefits of personnel in connection with ongoing closure activities that are expected to be incurred over the subsequent 36 months. As at September 30, 2019, $735 of the restructuring provision balance remained.

8. Related party disclosures

On June 27, 2019, the Company recognized termination benefits of $1,373, representing the fair value of expected payments to a Director in connection with the past service. Under the agreement, the Director will receive quarterly payments from June 30, 2019 to December 31, 2021. At September 30, 2019, $1,020 was included in accounts payable and accrued liabilities.

9. Revenue

The following are amounts for each significant category of revenue recognized during the periods ended September 30, 2019 and 2018:

	Three months ended, September 30		Nine months ended, September 30	
	2019	2018	2019	2018
Rendering of services	$ 123,435	$ 67,829	$ 276,049	$ 255,548
Sales of goods	16,099	18,167	51,129	44,944
Total revenue	$ 139,534	$ 85,996	$ 327,178	$ 300,492

10. Selling, general & administrative expenses

	Three months ended, September 30		Nine months ended, September 30	
	2019	2018	2019	2018
Salaries & benefits	$ 4,077	$ 3,284	12,342	$ 7,889
Occupancy costs	199	290	569	613
Professional fees	382	975	1,929	3,333
Travel & advertising	557	367	1,142	1,067
Repairs & maintenance	102	56	231	203
Office	294	310	552	808
Insurance	560	347	1,286	885
	$ 6,171	$ 5,629	$ 18,051	$ 14,798

11. Financial instruments and risk management

Financial instruments consist of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, ABL Facility, senior secured debentures and other secured borrowings.

a. Fair values of financial assets and liabilities

The fair value of the ABL Facility approximates its carrying amount, excluding the effect of deferred financing fees, due to its nature as a revolving facility subject to variable interest rates.

b. Risk management

ClearStream's Board of Directors has overall responsibility for the establishment and oversight of ClearStream's risk management framework. ClearStream has exposure to credit risk, customer concentration risk, liquidity risk, and interest rate risk.

c. 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:

	September 30, 2019	December 31, 2018
Cash	$ -	$ 10,838
Restricted cash	984	980
Accounts receivable	145,681	59,715
	$ 146,665	$ 71,533

Cash and restricted cash are held at Canadian Schedule A Banks and are therefore considered to have minimal amount of 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 multi-national oil and gas and construction companies, all of which have strong creditworthiness.

Of the total balance of accounts receivable at September 30, 2019, $92,649 (December 31, 2018 - $45,741) related to trade receivables and $53,032 (December 31, 2018 - $13,974) 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, 2019, approximately $11,904 of ClearStream's trade receivables had been outstanding longer than 90 days (December 31, 2018 - $1,809). Management has fully evaluated the outstanding receivables as at September 30, 2019 and has determined that the lifetime expected credit losses of the trade receivables was immaterial.

d. 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, to the extent 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.

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.

There were no material changes to customer concentration or liquidity risk for the nine months ended September 30 2019.

12. Segment 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 services segment, which includes the union and non-union cash generating units ("CGUs"), is a fully integrated provider of maintenance and construction services to the energy industry. This division provides maintenance services, welding, fabrication, machining, construction, turnaround services and a resource/labour supply to companies in the conventional oil and gas and oilsands markets.

The Wear, Fabrication and Environmental services segment, which includes the Wear, Fabrication and Environmental CGUs, specializes in the supply and fabrication of overlay pipe spools, pipe bends, wear plate, welding services, custom fabrication, pipe management and storage services. The Environmental Services group provides regulatory and environmental advisory services focused on servicing our clients across various end markets such as Oil & Gas, Power, Government, Mining and Forestry.

The Corporate segment 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 in the table below 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.

Three months ended September 30, 2019		Maintenance and Construction Services		Wear, Fabrication, and Environmental		Corporate		Eliminations		Total
Revenue	$	124,848	$	16,099	$	-	$	(1,413)	$	139,534
Cost of revenue		(113,073)		(10,918)		-		1,413		(122,578)
Gross profit		11,775		5,181		-		-		16,956
Selling, general and administrative expenses		(831)		(492)		(4,848)		-		(6,171)
Amortization of intangible assets		(125)		(29)		-		-		(154)
Depreciation expense		(2,055)		(1,161)		(524)		-		(3,741)
Income from equity investment		71		-		-		-		71
Interest expense		(128)		(138)		(5,184)		-		(5,450)
Restructuring costs		-		-		(1,087)		-		(1,086)
Impairment of right-of-use asset		-		362		-		-		362
Gain on sale of property, plant and equipment		140		-		-		-		140
Income from continuing operations	$	8,846	$	3,723	$	(11,644)	$	-	$	925

Three months ended September 30, 2018		Maintenance and Construction Services		Wear, Fabrication, and Environmental		Corporate		Eliminations		Total
Revenues	$	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		-		-		12		-		12
Amortization of intangible assets		(588)		(163)		-		-		(751)
Depreciation		(786)		(327)		(95)		-		(1,208)
Income from equity investment		28		-		-		-		28
Interest expense		(80)		(15)		(2,942)		-		(3,037)
Restructuring costs		-		-		(43)		-		(43)
Impairment of goodwill and intangible assets		(17,468)		-		-		-		(17,468)
Gain (loss) on sale of property, plant and equipment		262		2		(53)		-		211
Other (loss) gain		-		(172)		117		-		(55)
(Loss) income before taxes		(15,425)		3,155		(8,269)		-		(20,540)
Income tax (expense) recovery - current		(57)		(123)		336		-		156
(Loss) income from continuing operations	$	(15,483)	$	3,032	$	(7,933)	$	-	$	(20,384)

Nine months ended September 30, 2019	Maintenance and Construction Services	Wear, Fabrication, and Environmental	Corporate	Eliminations	Total
Revenue	$ 279,491	$ 51,129	$ -	$ (3,442)	$ 327,178
Cost of revenue	(257,219)	(36,156)	-	3,442	(289,933)
Gross profit	22,272	14,973	-	-	37,245
Selling, general and administrative expenses	(1,663)	(1,296)	(15,092)	-	(18,051)
Stock based compensation	-	-	(64)	-	(64)
Amortization of intangible assets	(575)	(135)	-	-	(710)
Depreciation expense	(4,443)	(3,038)	(2,411)	-	(9,893)
Income from equity investment	96	-	-	-	96
Interest expense	(761)	(427)	(12,737)	-	(13,925)
Restructuring costs	(366)	(962)	(4,203)	-	(5,531)
Impairment of right-of-use assets	-	(14)	(1,666)	-	(1,680)
Bargain purchase gain	-	-	12,272	-	12,272
Gain on remeasurement of right-of-use assets	-	-	127	-	127
Gain on sale of property, plant and equipment	247	-	-	-	247
Income (loss) before taxes	14,806	9,101	(23,775)	-	132
Income tax recovery - deferred	-	-	3,663	-	3,663
Income (loss) from continuing operations	$ 14,806	$ 9,101	$ (20,112)	$ -	$ 3,795

Nine months ended September 30, 2018	Maintenance and Construction Services	Wear, Fabrication, and Environmental	Corporate	Eliminations	Total
Revenues	$ 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 recovery	-	-	(143)	-	(143)
Amortization of intangible assets	(1,820)	(492)	-	-	(2,312)
Depreciation	(2,285)	(976)	(254)	-	(3,515)
Income from equity investment	132	-	-	-	132
Interest expense	(213)	(42)	(9,246)	-	(9,501)
Gain (loss) on sale of assets held for sale	-	1,032	(275)	-	757
Restructuring costs	-	-	(127)	-	(127)
Impairment of goodwill and intangible assets	(17,468)	-	-	-	(17,468)
Gain on sale of property, plant and equipment	262	2	12	-	276
Other loss	-	(646)	117	-	(529)
(Loss) income before taxes	(10,096)	7,272	(23,475)	-	(26,300)
Income tax (expense) recovery - current	(188)	(317)	336	-	(169)
(Loss) income from continuing operations	$ (10,285)	$ 6,955	$ (23,139)	$ -	$ (26,469)

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