ClearStream

First Quarter 2020

Helping Customers Bring Resources to Our World.

MESSAGE TO SHAREHOLDERS

The first quarter of 2020 represented a period of unprecedented times. In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. Due to public health measures, the movement of people and goods has become restricted, and economic activity has significantly contracted in most countries around the world. In addition, there has been extreme volatility with crude oil prices due to a significant reduction in demand, increased supply from OPEC and Russia and a potential lack of storage capacity forcing production shut-ins. The rapid evolution of the COVID-19 pandemic combined with the recent drop in oil prices has created a requirement to proactively adapt to the current market environment.

Although bidding activity remains strong as clients prepare for maintenance/construction activity once the pandemic is under control, some orders have been cancelled and most turnarounds scheduled for the second quarter have been postponed to later in 2020 or next year. We expect to see more cancellations or deferrals over the next few months, and have received client requests for additional ways to reduce costs. Furthermore, the recent collapse in oil prices has resulted in some production sites being partially or completely shut-in and, should oil prices remain at these levels, further sites may be shut-in and could remain shut-in until oil prices recover to a level where it is economic to re-commence production operations.

As part of the Company's response to the COVID-19 pandemic, the following measures have been taken:

- We implemented additional employee safety protocols in our various fabrication and production workshops and yards as well as client sites to manage the health risk for our workforce;
- We temporarily closed our Calgary and Edmonton corporate offices to ensure physical distancing, and reduced our district offices to essential personnel with most of our administrative staff now working remotely;
- We established a Management Emergency Response Committee (MERC) to issue daily instructions to all staff with a strong focus on COVID-19 protection measures, mental health and working from home guidelines;
- We submitted business continuity plans to our clients and updated all our site specific safety plans;
- We created a supply chain mitigation plan for potential disruptions related to material supply or the health of our subcontractors' workforce; and
- We re-purposed a portion of our insulation blanket manufacturing facility and staff to produce non-medical face masks for our employees and customers.

As it is difficult to reliably estimate the full impact of the COVID-19 pandemic and oil price supply/demand imbalance, we continue to adjust our operations in order to protect our liquidity and capital resources. We have implemented the following cost mitigation measures, without compromising our ability to promptly ramp up activity and therefore avoid long-term consequences to our capabilities and service offerings:

- Reduced our hourly workforce by 40% and salaried staff by 20% through temporary layoffs in order to adjust our cost structure to align with volume reductions requested by our clients;
- Curtailed all non-essential and discretionary spending, and reduced certain employee benefits to maintain our market competitiveness; and
- Reduced temporarily Executive Leadership Team and Director compensation.

As of March 31, 2020, ClearStream has cash and available credit facilities of $37.9 million (December 31, 2019 - $19.2 million). To maintain additional financial flexibility, we have also requested our lenders to defer interest and principal payments, waive compliance with financial covenants if required and defer other payments and fees.

The Company is actively monitoring the programs being introduced by the Federal and Provincial governments to provide support to business and their employees and, where appropriate, will apply to obtain funding from such programs.

Nevertheless, the Company's performance in the first quarter of 2020 increased in comparison to the same period in 2019 as a result of the acquisition on June 28, 2019 of (i) certain assets of the production services division of AECOM Production Services Ltd. and (ii) all of the shares of Universal Weld Overlays Inc. ("UWO"). The positive impact of those acquisitions was partially offset by reduced activity levels in the Maintenance and Construction segment as well as the Wear Technology Overlay segment, which impacted our margins in the first quarter of 2020. The full impact of the market pullback, partially offset by our mitigation measures, will be clearly visible in second quarter of 2020 and possibly in the second half of 2020 as well.

Since the launch of Flint and UWO as divisions of ClearStream in mid-2019, as well as the expansion of our Environmental business for abandonment, decommissioning, and reclamation of orphan well sites in Western Canada, we are able to offer and serve our clients with a suite of 38 services that encompass the full asset lifecycle. With expected continued consolidation of oil and gas exploration and production companies and the extensive regional coverage provided by our district offices, ClearStream is well-positioned to consolidate further multiple services required at various operating sites while generating efficiencies and cost reductions for its clients.

Thank you for your continued support as we navigate these challenging times together.

Yves Paletta

Chief Executive Officer

Advisory Regarding Forward-Looking Information

This Message to Shareholders contains forward-looking statements relating to but not limited to: the effects of the COVID-19 pandemic on global commerce and oil prices; that we will see more cancellations or deferrals of client orders; that some production sites could be partially or completely shut-in until oil prices recover; our ability to mitigate potential disruptions related to material supply or the health of our subcontractors' workforce; that we will continue to adjust our operations in order to protect our liquidity and capital resources; that the cost mitigation measures implemented to-date will not compromise our ability to ramp up activity in the future and will avoid long-term consequences to our capabilities and service offerings; the possibility that our lenders will agree to defer interest payments, waive compliance with financial covenants and defer other payments and fees; that we intend to apply for funding from applicable government programs; when the full impact of the market pullback on our operations will be visible; and that we are well-positioned to consolidate further multiple services while generating efficiencies and cost reductions for clients. We refer you to the front of the Management's Discussion and Analysis section of this report for our complete advisory on forward-looking information.

Management’s Discussion and Analysis

May 7, 2020

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

All amounts in this MD&A are in Canadian dollars and expressed in thousands of dollars unless otherwise noted. The accompanying condensed interim consolidated unaudited financial statements of ClearStream have been prepared by and are the responsibility of management. The contents of this MD&A have been approved by the Board of Directors of ClearStream on the recommendation of its Audit Committee. This MD&A is dated May 7, 2020 and is current to that date unless otherwise indicated.

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

This MD&A makes reference to certain measures that are not defined in IFRS and contains forward-looking information. These measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. See "Advisory regarding Forward-Looking Information" and "Non-Standard Measures" on page 3.

References to “we”, “us”, “our” or similar terms, refer to ClearStream, unless the context otherwise requires.

Reportable Segments

The three segments listed below represent the reportable segments that the chief operating decision maker considers when reviewing the performance of ClearStream and deciding where to allocate resources.

ClearStream's operations, assets and employees are mainly located in Canada with some activity in the United States through Universal Weld Overlays Inc. ClearStream utilizes EBITDAS and Adjusted EBITDAS as performance measures for its segmented results. These measures are considered to be non-standard measures under IFRS.

Segment	Business Description
Maintenance and Construction services	Operational, maintenance, turnaround and construction services to the conventional oil and gas, oilsands, and other industries.
Wear Technology Overlay services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate.
Corporate	ClearStream head office management, administrative, legal and interest expense costs.

Note: The Environmental Services division has been included in the Maintenance and Construction Services segment; the financial results for this division were not significant to overall financial results for this segment during the period ending March 31, 2020.

Advisory regarding Forward-Looking Information

Certain information included in this MD&A may constitute “forward-looking information” within the meaning of Canadian securities laws. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other similar expressions concerning matters that are not historical facts. Specifically, this MD&A contains forward-looking information relating to: our business plans, strategies and objectives; the effects of the COVID-19 pandemic on global commerce and oil prices; that the COVID-19 outbreak and other market conditions will have longer term impacts on our activity levels and margins; the impact of our cost reduction initiatives on our results of operations; the impact of the COVID-19 pandemic on the long-term outlook for commodity prices and the capital spending budgets of our customers; the consolidation of our wear technology overlay facilities, including the timing of completion and the benefits; the possibility that our lenders will agree to defer interest payments, waive compliance with financial covenants and defer other payments and fees; that we expect to receive an additional liquidity injection through the programs introduced by the Federal and Provincial governments to provide support to businesses; the funding of our short-term contractual obligations with cash flow from operations and available credit facilities; our ability to maintain compliance with our financial covenants through March 31, 2021; the effect of known claims and litigation on our financial position and results of operations; our assessment of overall market conditions; that the seasonality of our revenues will be disrupted in 2020 due to the COVID-19 pandemic; that overall market conditions are anticipated to remain uncertain for the foreseeable future; that the demand for our services is expected to remain lower for the next few quarters compared to 2019; and that we expect that maintenance and turnaround activity will eventually increase as many customers will focus more than ever on asset reliability and production efficiencies over the next few years..

Forward-looking information involves significant risks and uncertainties. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information including, but not limited to, the success of our response to the COVID-19 global pandemic, risks related to the integration of acquired businesses, conditions of capital markets, economic conditions, commodity prices, dependence on key personnel, interest rates, regulatory change, ability to meet working capital requirements and capital expenditure needs, factors relating to the weather and availability of labour. These factors should not be considered exhaustive. Risks and uncertainties about ClearStream’s business are more fully discussed in ClearStream’s disclosure materials, including its annual information form and management’s discussion and analysis of the operating and financial results, filed with the securities regulatory authorities in Canada and available at www.sedar.com. In formulating forward-looking information herein, management has assumed that business and economic conditions affecting ClearStream will continue substantially in the ordinary course, including, without limitation, with respect to general levels of economic activity, regulations, taxes and interest rates. Although the forward-looking information is based on what management of ClearStream consider to be reasonable assumptions based on information currently available to it, there can be no assurance that actual events or results will be consistent with this forward-looking information, and management’s assumptions may prove to be incorrect.

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

Non-standard measures

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

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

Adjusted EBITDAS refers to EBITDAS excluding the gain on sale of assets held for sale, impairment of goodwill and intangible assets, restructuring costs, gain on sale of property plant and equipment, recovery of contingent consideration liability, other loss, one time incurred expenses, impairment of right-of-use assets, bargain purchase gain 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.

2020 RESULTS – CONTINUING OPERATIONS

Summary Results ($000's)

For the three months ended March 31,	2020	2019
Revenue	$ 126,799	$ 83,954
Cost of revenue	(117,653)	(75,236)
Gross profit	9,146	8,718
Selling, general and administrative expenses	(6,542)	(5,150)
Share-based compensation and other long-term incentive plans recovery (expense)	1,109	(64)
Amortization of intangible assets	(351)	(332)
Depreciation expense	(3,312)	(3,064)
Income from equity investment	49	25
Interest expense	(4,097)	(4,346)
Restructuring costs	(413)	(61)
Impairment of intangible assets and goodwill	(5,000)	—
Gain on sale of property, plant and equipment	140	52
Loss from continuing operations	(9,272)	(4,222)
Add:		
Amortization of intangible assets	351	332
Depreciation expense	3,312	3,064
Share-based compensation and other long-term incentive plans (recovery) expense	(1,109)	64
Interest expense	4,097	4,346
EBITDAS	$ (2,620)	$ 3,584
Gain on sale of property, plant and equipment	(140)	(52)
Impairment of intangible assets and goodwill	5,000	—
Restructuring costs	413	61
One-time incurred expenses	—	244
Adjusted EBITDAS	$ 2,653	$ 3,837
Net (loss) income per share (dollars)		
Basic & Diluted:		
Continuing operations	$ (0.08)	$ (0.04)
Discontinued operations	$ —	$ 0.02
Net loss and comprehensive loss	$ (0.09)	$ (0.01)

Selected Balance Sheet Accounts	March 31, 2020	December 31, 2019
Total assets	$ 234,555	$ 257,573
ABL facility	56,872	67,442
Senior secured debentures	96,955	96,955
Other secured borrowings	18,053	18,621
Shareholders' deficit	$ (32,796)	$ (23,438)

2020 RESULTS

Revenues for the three months ended March 31, 2020 were $126,799 compared to $83,954 for the same period in 2019, an increase of 51% from 2019. This increase in 2020, in comparison to 2019, is driven by the acquisition on June 28, 2019 of certain assets of the production services division of AECOM Production Services Ltd. (the "AECOM PSD Business") and all of the issued and outstanding shares of Universal Weld Overlays Inc. ("UWO"). Acquisition driven revenue increases were partially offset by a reduction of revenue in the Maintenance and Construction segment and Wear Technology Overlay segment. The revenue reductions in these segments were due to customers reducing spending and postponing scheduled maintenance and turnaround activities. These postponements are a result of volatility in crude oil prices due to macro-economic uncertainty, fuelled by increased supply from OPEC and Russia, the economic impact of the COVID-19 pandemic, and potential lack of storage capacity, forcing production shut-ins at various sites in Western Canada.

Gross profit for the three months ended March 31, 2020 was $9,146 compared to $8,718 for the same period in 2019. Gross profit margins were 7.2% in 2020 compared to 10.4% in 2019. The decrease in gross profit margin in 2020 was due to a reduction in both the total volume and the volume of higher margin work in the Wear Technology Overlay Services segment where certain fixed costs are required to operate the facilities and downward pressure on margins by customers in response to market uncertainty. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins, we took immediate steps to adjust our cost structure, for which we will see the full impact in the remainder of 2020.

Selling, general and administrative (“SG&A”) expenses for the three months ended March 31, 2020 were $6,542, in comparison to $5,150 for the same period in 2019. As a percentage of revenue, SG&A costs were 5.2% in 2020 compared to 6.1% in 2019. This decrease for the three months ended March 31, 2020 was due to the combined effect of lower SG&A expenses in the first quarter of 2020 (due to the implementation of cost reduction initiatives near the end of the first quarter) and higher SG&A expenses in the first quarter of 2019 (due to the Company's growth and business process improvement initiatives).

Non-cash items that impacted the 2020 results were depreciation, amortization, and share-based compensation and other long-term incentive plans. For the three months ended March 31, 2020, depreciation and amortization expense was $3,663 compared to $3,396 for the same period in 2019. An increase in depreciation and amortization expense was largely due to the increase in asset values as a result of the acquisition of the AECOM PSD Business. Share-based compensation and other long-term incentive plans recovery of $1,109, in comparison to an expense of $64 in 2019, represents the change in the net present value of future cash payments expected to be earned under the Cumulative Value Creation Unit Plan. This amount will fluctuate period to period based on management’s best estimate of Adjusted EBITDAS over the performance period, calculated for the portion of the performance period that has been completed.

For the three months ended March 31, 2020, interest expenses were $4,097 compared to $4,346 in 2019. Interest expense decreased by $249 due to accretion adjustments on other secured borrowings and earn-out contingent liability. Excluding accretion, interest for the three months ended March 31, 2020 was $5,153 an increase from the same period 2019 resulting from an increase in the amount outstanding under the term loan facilities due to advances made in the second and third quarters of 2019.

Restructuring costs of $413 were recorded during the three months ended March 31, 2020, in comparison to $61 in 2019. These non-recurring restructuring costs were related to the acquisitions of the AECOM PSD Business and UWO, which closed on June 28, 2019, as well as additional severance.

ClearStream identified indicators of impairment at March 31, 2020 as a result of the forecasted impact of the COVID-19 pandemic, which has decreased global demand for oil and gas, resulting in a reduction in long-term commodity price outlooks. ClearStream’s customers’ capital spending budgets have been reduced in the near-term and there is significant uncertainty as to the scale and duration of these developments. Management therefore performed impairment tests as at March 31, 2020 for the Wear and UWO cash-generating units (“CGUs”), both of which are within the Wear Technology Overlay Services segment. This testing resulted in an impairment of the UWO CGU of $5,000. No impairment was required for the Wear CGU.

Loss from continuing operations for the three months ended March 31, 2020 was $9,272, in comparison to loss of $4,222 in 2019. The income variance is largely driven by the goodwill impairment loss and decrease to gross profits offset by the reversal of the share-based compensation and other long-term incentive plans.

The loss from discontinued operations was $86 for the three months ended March 31, 2020, compared to a gain of $2,642 for the same period in 2019. 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 Quantum Murray and legal proceedings that existed prior to the sale of the business.

For the three months ended March 31, 2020, Adjusted EBITDAS was $2,653 compared to $3,837 for the same period in 2019. As a percentage of revenue, Adjusted EBITDAS was 2.1% in 2020 compared to 4.6% in 2019. Adjusted EBITDAS as a percentage of revenue decreased due to gross profit decreases in the Maintenance and Construction Services segment and Wear Technology Overlay Services segment.

SEGMENT OPERATING RESULTS

MAINTENANCE AND CONSTRUCTION SERVICES

For the three months ended March 31,		2020		2019
Revenue	$	115,344	$	67,390
Cost of revenue		(108,641)		(63,194)
Gross profit		6,703		4,196
Selling, general and administrative expenses		(190)		(193)
Amortization of intangible assets		(39)		(269)
Depreciation expense		(2,115)		(1,350)
Income from equity investments		49		25
Interest expense		(318)		(332)
Restructuring costs		(16)		(8)
Gain on sale of property, plant and equipment		140		52
Income from continuing operations		4,214		2,121
Add:				
Amortization of intangible assets		39		269
Depreciation expense		2,115		1,350
Interest expense		318		332
EBITDAS		6,686		4,072
Gain on sale of property, plant and equipment		(140)		(52)
Restructuring costs		16		8
Adjusted EBITDAS	$	6,563	$	4,028

REVENUES

Revenues for the Maintenance and Construction Services segment were $115,344 for the three months ended March 31, 2020 compared to $67,390 for the same period in 2019, which reflects an increase of 71.2%. This increase was due to the acquisition of the AECOM PSD Business on June 28, 2019. Acquisition driven revenue increases were partially offset by reductions due to customers reducing spending and postponing scheduled maintenance and turnaround activities. These postponements are a result of volatility in crude oil prices due to macro-economic uncertainty, fuelled by increased supply from OPEC and Russia, the economic impact of the COVID-19 pandemic, and potential lack of storage capacity, forcing production shut-ins at various sites in Western Canada.

GROSS PROFIT

Gross profit was $6,703 for the three months ended March 31, 2020, compared to $4,196 for the same period in 2019. Gross profit margins were 5.8% in 2020 compared to 6.2% for the same period in 2019. The gross profit margin decrease was due to lower than anticipated volumes from our maintenance and turnaround business, relative to indirect costs, as well as the downward market pressure on margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Maintenance and Construction Services segment were $190 for the three months ended March 31, 2020 which is consistent with the same period in 2019.

WEAR TECHNOLOGY OVERLAY SERVICES

For the three months ended March 31,	2020	2019
Revenue	$ 11,767	$ 17,029
Cost of revenue	(9,326)	(12,507)
Gross profit	2,442	4,522
Selling, general and administrative expenses	(22)	(381)
Amortization of intangible assets	(313)	(63)
Depreciation expense	(805)	(830)
Interest and foreign exchange recovery (expense)	73	(154)
Restructuring costs	(16)	—
Impairment of intangible assets and goodwill	(5,000)	—
Income from continuing operations	(3,640)	3,094
Add:		
Amortization of intangible assets	313	63
Depreciation expense	805	830
Interest and foreign exchange (recovery) expense	(73)	154
EBITDAS	(2,596)	4,141
Impairment of intangible assets and goodwill	5,000	—
Restructuring costs	16	—
Adjusted EBITDAS	$ 2,419	$ 4,141

REVENUES

Revenues for this segment for the three months ended March 31, 2020 were $11,767, compared to $17,029 for the same period in 2019. The decrease in revenue for the period was due to overall reduced market activity as customers were cautious on spending in the first quarter and this was further impacted by lower than anticipated volumes from the postponement of scheduled maintenance and turnarounds. A further decrease in revenue for the period is due to the revenue generated by some fabrication facilities in the second quarter of 2019, that were eventually closed in mid-2019.

GROSS PROFIT

Gross profit was $2,442 for the three months ended March 31, 2020, compared to $4,522 for the same period in 2019. Gross profit margins were 20.7% in 2020 compared to 26.6% for the same period in 2019. The gross profit margin decrease was due to increased competition, which put downward pressure on margins, a higher proportion of lower margin work in our facilities and the overall decline in volumes with certain fixed costs remaining steady. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins, we took immediate steps to adjust our cost structure, including the consolidation of our facilities in order to optimize our overlay manufacturing footprint and efficiencies when completed in the third quarter of 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Wear Technology Overlay Services segment were $22 for the three months ended March 31, 2020 compared to $381 for the same period in 2019. SG&A expenses decreased due to the closing of some fabrication facilities in late Q2 2019 and cost mitigation efforts.

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.

For the three months ended March 31,	2020	2019
Selling, general and administrative expenses	$ (6,330)	$ (4,576)
Share-based compensation and other long-term incentive plans recovery (expense)	1,109	(64)
Depreciation expense	(393)	(884)
Interest expense	(3,852)	(3,860)
Restructuring costs	(381)	(53)
Loss from continuing operations	(9,847)	(9,437)
Add:		
Depreciation expense	393	884
Share-based compensation and other long-term incentive plans (recovery) expense	(1,109)	64
Interest expense	3,852	3,860
EBITDAS	(6,711)	(4,629)
Restructuring costs	381	53
One-time incurred expenses	—	244
Adjusted EBITDAS	$ (6,330)	$ (4,332)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses were $6,330 for the three months ended March 31, 2020 compared to $4,576 for the same period in 2019. SG&A expenses as a percentage of revenue were 5.0% in 2020 compared to 5.5% for the same period in 2019. This decrease for the three months ended March 31, 2020 was due to the implementation of cost reduction initiatives near the end of the first quarter in 2020 and higher expenses in the first quarter of 2019 due to the Company's growth and business process improvement initiatives.

DISCONTINUED OPERATIONS

For the three months ended March 31,	**2020**	**2019**
(Loss) gain from discontinued operations	$ (86)	$ 2,642

The loss from discontinued operations in the first quarter of 2020 was due to expenses that the Company continues to incur relating to Quantum Murray. The gain from discontinued operations in the first quarter of 2019 was due to the Company's share of an income tax reassessment won by Brompton offset by expenses relating to the sale of businesses prior to March 2018.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31,	2020	2019
Cash provided by operating activities	$ 3,564	$ 4,614
Cash used in investing activities	(132)	(120)
Cash used in financing activities	(10,541)	(13,098)
Consolidated cash, end of period	$ —	$ 2,234

LIQUIDITY

The Company’s liquidity and cash flow from operations has been impacted by a variety of external factors including: (a) further volatility in crude oil prices due to macro-economic uncertainty; and (b) COVID-19 impacting both the global and local economy in general and global oil demand in particular. As a result of these factors and a lack of available storage capacity, Canadian heavy oil producers have significantly scaled back their production operations, which has had a significant impact on our business and triggered deferrals in turnaround activity.

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

To maintain additional financial flexibility, we have also requested our lenders to defer interest and principal payments, waive compliance with financial covenants if required and defer other payments and fees. We have reached an agreement in principle with (i) the provider of the Term Loan Facility to defer the payment of interest to March 31, 2021, and (ii) the holders of the senior secured debentures to accept payment of the interest owing on June 30, 2020 and December 31, 2020 in the form of additional senior secured debentures.

Based on current forecast, which assumes the interest payment relief described above and receipt of funding available to ClearStream through the programs introduced by the Federal and Provincial governments to provide support to businesses, the Company anticipates having sufficient cash flow from operations and available credit facilities to meet its short-term contractual obligations and to maintain compliance with its financial covenants through March 31, 2021.

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

OPERATING ACTIVITIES

Cash flow provided by operating activities represents the net loss incurred during the three months ended March 31, 2020 adjusted for interest and non-cash items, combined with the decrease in working capital.

INVESTING ACTIVITIES

Cash outflows related to investment activities consist of the purchase of assets during the three months ended March 31, 2020 for $294 offset partially by proceeds of $181 from the disposal of certain assets.

FINANCING ACTIVITIES

a. ABL Facility

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

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

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at March 31, 2020 is $63,283 (December 31, 2019 - $50,000). The obligations under the ABL Facility are secured by, among other things, a first ranking lien on all of the existing and after acquired accounts receivable and inventories of the borrower and the other guarantors, being the Company and certain of its direct and indirect subsidiaries. The interest rate on the Revolving Facility is prime plus 2.5%, increasing to prime plus 4.0% if the Revolving Facility is more than 50% drawn.

As at March 31, 2020, $16,825 (December 31, 2019 - $27,825) was drawn on the Revolving Facility, and there were $3,230 (December 31, 2019 - $2,930) of letters of credit further reducing the amount available to be drawn. As at March 31, 2020, the net unamortized amount of deferred financing costs was $454 (December 31, 2019 - $883).

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

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

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

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

At March 31, 2020, ClearStream was in compliance with all financial covenants under the ABL Facility.

b. Other Secured Borrowings

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

Critical Accounting Policies and Estimates

ClearStream prepares its consolidated financial statements in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Based on the current environment, significant market uncertainty exists that could impact the estimates and assumptions made by the ClearStream. Significant accounting policies and methods used in the preparation of the consolidated financial statements, including use of estimates and judgments, are described in note 1 of the condensed interim consolidated financial statements.

CONTINGENCIES

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

Summary of Quarterly Results

($000s except unit amounts)

	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Revenue	$126,799	$137,066	$139,542	$103,690	$83,954	$ 77,840	$ 85,996	$129,702	$ 84,794
Gross Margin	$ 9,146	$15,158	$ 16,127	$11,571	$ 8,718	$ 6,169	$ 7,400	$ 6,709	$ 6,819
Gross Margin %	7.2 %	11.1 %	11.6 %	11.2 %	10.4 %	7.9 %	8.6 %	5.2 %	8.0 %
Net (loss) income from continuing operations	$ (9,272)	$(10,449)	$ 928	$ 7,091	$ (4,222)	$ (3,153)	$ (20,834)	$ (3,097)	$ (2,988)
Net (loss) income	$ (9,357)	$(10,536)	$ 619	$ 6,785	$ (1,580)	$ (2,543)	$ (20,694)	$ (3,210)	$ (3,175)
Net (loss) income per share from continuing operations	$ (0.08)	$ (0.09)	$ 0.01	$ 0.06	$ (0.04)	$ (0.03)	$ (0.19)	$ (0.03)	$ (0.03)
Net (loss) income per share	$ (0.09)	$ (0.10)	$ 0.01	$ 0.06	$ (0.01)	$ (0.02)	$ (0.19)	$ (0.03)	$ (0.03)

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

TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2020, directors, officers and key employees beneficially held an aggregate of 11,768,442 common shares or 10.81% of the issued and outstanding common shares. Two leases for properties with quarterly rents of $78 and $100 are with a landlord in which certain directors of ClearStream hold an indirect minority interest.

These transactions occurred in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties.

SHARE CAPITAL

The authorized share capital of the Company consists of: (i) an unlimited number of common shares, and (ii) preferred shares issuable in series to be limited in number to an amount equal to not more than one half of the issued and outstanding common shares at the time of issuance of such preferred shares.

As of March 31, 2020, our issued and outstanding share capital included 109,992,668 common shares, 127,735 Series 1 preferred shares, and 40,111 Series 2 preferred shares.

As at March 31, 2020, the accrued and unpaid dividends on the Series 1 and Series 2 preferred shares totaled $30,490. Assuming that the holders of the preferred shares exercise the right to convert such accrued and unpaid dividends into additional preferred shares and then convert such preferred shares into common shares, approximately 108,900,000 common shares would be issued, which represents approximately 99% of the common shares outstanding as of March 31, 2020.

OUTLOOK

In response to the COVID-19 pandemic, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the spread of the virus, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. Those measures are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. The continued spread of COVID-19 nationally and globally has had, and will continue to have, a material adverse affect on our business, operations and financial results. In addition, the unprecedented reduction of crude oil prices due to excessive supply compared to energy consumption, notwithstanding the recent agreement among OPEC members and other global oil producing countries to implement supply reductions, will continue to have a significant impact on our industry for months to come.

As such, overall market conditions are anticipated to remain uncertain for the foreseeable future. Upstream, midstream and downstream companies will continue to reduce or carefully manage spending for capital projects and operations where possible until some sort of market stability has returned, While demand for ClearStream's services is expected to remain lower for the next few quarters compared to 2019, we expect that maintenance and turnaround activity will eventually increase as many customers will focus more than ever on asset reliability and production efficiencies over the next few years

RISK FACTORS

For additional information regarding the risks that the Company is exposed to, see the disclosure provided under the heading “Risk Factors” in the Company’s Annual Information Form for the year ended December 31, 2019, which is available on the SEDAR website at www.sedar.com.

COVID-19 Pandemic

The outbreak of the COVID-19 pandemic and its impact on the global economy (including a material reduction in the demand for petroleum products) has impacted the Company’s plans and activities by reducing the demand for its services and its gross margins. The Company may face disruption to operations, supply chain delays, travel and trade restrictions and the impact on economic activity can be difficult to quantify. Such pandemics or diseases represent a serious threat to maintaining a skilled workforce and could be a major healthcare challenge for the Company. There can be no assurance that the Company’s personnel will not be impacted by COVID-19 and ultimately that the Company would see its workforce productivity reduced. In addition, the COVID-19 pandemic has created a dramatic slowdown in both the global and local economy. The duration of the COVID19 outbreak and the resulting travel restrictions, social distancing, Government response actions, business closures and business disruptions, can all have an impact on the Company’s operations and access to capital.

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

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

- The Company’s credit facilities may not provide sufficient liquidity;
- Failure to comply with the covenants in the agreements governing the Company’s debt could adversely affect the Company’s financial condition;
- The Company’s business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile;
- The Company relies on certain key personnel whose absence or loss could disrupt its operations and have a material adverse affect on its business;

- Since a significant portion of the Company's work is in the oil sands sector, the Company's performance is sensitive to factors affecting the oil sands sector including temporary or permanent shutdown of projects due to downturns in oil and gas prices, natural disasters, mechanical breakdowns, technology failures or pressure from environmental activism;
- ClearStream may not be able to convert its backlog into revenue and cannot guarantee that the revenues projected in its backlog will be realized or, if realized, will result in profits;
- Cyber attacks and loss of the Company's information and computer systems as our workforce moves to remote connections could adversely affect the Company's business; and
- The Company's business is subject to changes in general economic conditions over which ClearStream has little or no control.

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

We are required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". This instrument requires us to disclose in our interim MD&A any weaknesses in or changes to our internal control over financial reporting during the period that may have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We confirm that no such weaknesses were identified in, or changes were made to, internal controls over financial reporting during the three months ended March 31, 2020.

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

ADDITIONAL INFORMATION

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF

CLEARSTREAM ENERGY SERVICES INC.

THREE MONTHS ENDED March 31, 2020 and 2019

(UNAUDITED)

Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Notes	March 31, 2020	December 31, 2019
Assets			
Cash		$ —	$ 7,109
Restricted cash		805	805
Accounts receivable	12	127,552	138,638
Inventories	2	10,004	9,739
Prepaid expenses		2,247	1,888
Total current assets		140,607	158,178
Property, plant and equipment	3	78,080	78,244
Goodwill and intangible assets	4	15,000	20,332
Long-term investments		868	819
Total assets		**$ 234,555**	**$ 257,573**
Liabilities and shareholders' equity			
Bank indebtedness		$ 3,248	$ —
Accounts payable and accrued liabilities		52,802	57,472
Deferred consideration	5	1,181	1,158
Earn-out contingent liability	6	476	1,234
ABL facility	7	56,872	67,442
Current portion of lease liabilities		7,359	7,756
Current portion of provision		—	885
Current portion of other secured borrowings	7	1,457	1,322
Total current liabilities		123,395	137,269
Lease liabilities		29,195	28,278
Other secured borrowings	7	16,596	17,299
Senior secured debentures		96,955	96,955
Deferred tax liability		1,210	1,210
Total liabilities		267,351	281,011
Common shares	10	462,054	462,054
Preferred shares	10	141,933	141,933
Contributed surplus		20,679	20,679
Deficit		(657,462)	(648,104)
Total shareholders' deficit		(32,796)	(23,438)
Total liabilities and shareholders' deficit		**$ 234,555**	**$ 257,573**

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

Consolidated Interim Statements of Loss and Comprehensive Loss

(In thousands of Canadian dollars)

(Unaudited)

For the three months ended March 31,	Notes		2020		2019
Revenue	8	$	126,799	$	83,954
Cost of revenue			(117,653)		(75,236)
Gross profit			9,146		8,718
Selling, general and administrative expenses	9		(6,542)		(5,150)
Share-based compensation and other long-term incentive plans	11		1,109		(64)
Amortization of intangible assets	4		(351)		(332)
Depreciation expense	3		(3,312)		(3,064)
Income from equity investment			49		25
Interest expense			(4,097)		(4,346)
Restructuring costs			(413)		(61)
Impairment of goodwill and intangible assets	4		(5,000)		—
Gain on sale of property, plant and equipment			140		52
Loss from continuing operations			(9,272)		(4,222)
(Loss) gain from discontinued operations (net of income taxes)			(86)		2,642
Net loss and comprehensive loss		$	(9,357)	$	(1,580)
Net (loss) income per share (dollars)					
Basic & diluted:					
Continuing operations		$	(0.08)	$	(0.04)
Discontinued operations		$	—	$	0.02
Net loss		$	(0.09)	$	(0.01)

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

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
December 31, 2019		109,992,668	$ 462,054	$ 141,933	$ 20,679	$ (648,105)	$ (23,439)
Net loss		—	—	—	—	(9,357)	(9,357)
At March 31, 2020		109,992,668	$ 462,054	$ 141,933	$ 20,679	$ (657,462)	$ (32,796)

	Notes	Number of shares	Common Shares	Preferred Shares	Contributed Surplus	Deficit	Total Shareholders' Deficit
December 31, 2018		109,941,241	$ 462,036	$ 102,203	$ 20,716	$ (643,392)	$ (58,437)
Net loss		—	—	—	—	(1,580)	(1,580)
Share-based compensation		—	—	—	10	—	10
At March 31, 2019		109,941,241	$ 462,036	$ 102,203	$ 20,726	$ (644,972)	$ (60,007)

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

Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

For the three months ended March 31,	Notes	2020	2019
Operating activities:			
Net loss		$ (9,357)	$ (1,580)
Adjustments for:			
Share-based compensation and other long-term incentive plans		(1,109)	10
Amortization of intangible assets	4	351	332
Depreciation expense	3	3,312	3,064
Income from equity investments		(49)	(25)
Accretion (recovery) expense		(297)	63
Impairment of goodwill and intangible assets		5,000	—
Amortization of deferred financing costs		739	371
Recovery of contingent consideration liability		(758)	—
Gain on sale of property, plant and equipment	3	(140)	(52)
Changes in non-cash working capital		5,872	2,431
Cash flow provided by operating activities		$ 3,564	$ 4,614
Investing activities:			
Purchase of property, plant and equipment	3	(294)	(205)
Net proceeds on disposal of property, plant and equipment	3	181	85
Purchase of intangible assets	4	(19)	—
Cash flow used in investing activities		$ (132)	$ (120)
Financing activities:			
Repayment of other secured borrowings		(228)	—
Increase in bank indebtedness		3,248	—
Refinancing fees	7	(309)	—
Repayment of ABL facility	7	(10,570)	(10,000)
Repayment of lease liabilities		(2,682)	(3,098)
Cash flow used in financing activities		$ (10,541)	$ (13,098)
Decrease in cash		(7,109)	(8,604)
Cash, beginning of period		7,109	10,838
Cash, end of period		$ —	$ 2,234

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 311-6th Avenue, Calgary, Alberta. ClearStream is a fully-integrated provider of upstream, midstream, and downstream production services, which includes maintenance and turnarounds, facilities construction, welding and fabrication and environmental services with locations across Western Canada.

These condensed interim consolidated financial statements were authorized for issuance in accordance with a resolution of the Board of Directors of ClearStream on May 7, 2020.

1 Significant accounting policies

a. Basis of Presentation

These condensed interim consolidated 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 has 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, 2019. These interim financial statements follow the same accounting policies and methods of computations as the most recent annual consolidated financial statements.

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 from the prior year to conform to the current period presentation.

b. Use of estimates and judgements

In March 2020, the World Health Organization declared a global pandemic related to the novel coronavirus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. Due to public health measures, the movement of people and goods has become restricted, and economic activity has significantly contracted in most countries around the world. In addition, there has been extreme volatility with crude oil prices due to a significant reduction in demand, increased supply from OPEC and Russia and a potential lack of storage capacity forcing production shut-ins. The rapid evolution of the COVID-19 pandemic combined with the recent drop in oil prices has created a requirement to proactively adapt to the current market environment. These uncertainties, which may persist beyond when it is determined how to contain the virus or treat its impact and further impacts from crude oil price volatility, may increase the complexity of estimates and assumptions used to prepare the interim financial statements, and changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Examples of significant estimates include provisions and contingencies, the determination of triggering events for impairment for non-financial assets, and fair value measurements, including those related to financial instruments.

2. Inventories

Inventories comprise the following:

	March 31, 2020	December 31, 2019
Raw materials	$ 6,013	$ 5,374
Work-in-progress	65	229
Finished goods	3,264	3,473
Parts and supplies	663	663
Total	$ 10,004	$ 9,739

3. Property, plant and equipment

	Land and buildings	Computer hardware	Furniture, tools and equipment	Leasehold improvements	Right-of-use assets	Automotive and heavy equipment	Total
Cost							
Balance as at December 31, 2019	**$ 19,505**	**$ 2,574**	**$ 17,091**	**$ 8,006**	**$ 63,835**	**$ 34,254**	**$ 145,264**
Additions	—	128	162	—	2,937	3	3,231
Disposals	—	—	—	—	(298)	(120)	(418)
Balance as at March 31, 2020	**$ 19,505**	**$ 2,702**	**$ 17,253**	**$ 8,006**	**$ 66,474**	**$ 34,137**	**$ 148,077**
Accumulated Depreciation							
Balance as at December 31, 2019	**$ 763**	**$ 1,434**	**$ 9,089**	**$ 7,909**	**$ 27,758**	**$ 20,066**	**$ 67,020**
Depreciation	176	77	305	18	2,074	662	3,312
Disposals	—	—	—	—	(229)	(106)	(336)
Balance as at March 31, 2020	**$ 939**	**$ 1,511**	**$ 9,394**	**$ 7,927**	**$ 29,603**	**$ 20,622**	**$ 69,996**
Net book value							
As at December 31, 2019	**$ 18,742**	**$ 1,140**	**$ 8,002**	**$ 97**	**$ 36,077**	**$ 14,188**	**$ 78,244**
As at March 31, 2020	**$ 18,566**	**$ 1,191**	**$ 7,859**	**$ 79**	**$ 36,871**	**$ 13,515**	**$ 78,080**

Right-of-use assets consist of the following:

	Land and buildings	Furniture, tools and equipment	Automotive and heavy equipment	Total
Cost				
Balance as at December 31, 2019	**$ 37,427**	**$ 69**	**$ 26,338**	**$ 63,834**
Additions	2,000	—	937	2,937
Disposals	(114)	—	(184)	(298)
Balance as at March 31, 2020	**$ 39,313**	**$ 69**	**$ 27,091**	**$ 66,473**
Accumulated Depreciation				
Balance as at December 31, 2019	**$ 13,192**	**$ 31**	**$ 14,534**	**$ 27,757**
Disposals	(72)	—	(157)	(229)
Depreciation	1,267	8	799	2,074
Balance as at March 31, 2020	**$ 14,387**	**$ 39**	**$ 15,176**	**$ 29,602**
Net book value				
As at December 31, 2019	**$ 24,235**	**$ 38**	**$ 11,804**	**$ 36,077**
As at March 31, 2020	**$ 24,926**	**$ 30**	**$ 11,915**	**$ 36,871**

Commitment to new Triple Net lease, not yet commenced

On February 18, 2020, the Company entered into a 61-month lease to rent a building, which had not commenced by the quarter-end and as a result, a lease liability and right-of-use asset has not been recognized at March 31, 2020. The aggregate future cash outflows to which the Company is exposed in respect of this contract is fixed payments of $30 per month, for the next 61 months.

4. Goodwill and intangible assets

	Goodwill	Intangible Total	TOTAL
Cost			
Balance as at December 31, 2019	**$ 100,681**	**$ 107,360**	**$ 208,041**
Additions	—	19	19
Balance as at March 31, 2020	**$ 100,681**	**$ 107,379**	**$ 208,060**
Amortization and impairments			
Balance as at December 31, 2019	**$ (87,732)**	**$ (99,977)**	**$ (187,709)**
Amortization	—	(351)	(351)
Impairment	(5,000)	—	(5,000)
Balance as at March 31, 2020	**$ (92,732)**	**$ (100,328)**	**$ (193,060)**
Net book value			
As at December 31, 2019	**$ 12,949**	**$ 7,383**	**$ 20,332**
As at March 31, 2020	**$ 7,949**	**$ 7,051**	**$ 15,000**

ClearStream identified indicators of impairment at March 31, 2020 for the Wear and UWO cash-generating units ("CGUs") as a result of the forecasted impact of the COVID-19 pandemic, which has decreased global demand for oil and gas, resulting in a reduction in long-term commodity price outlooks.

ClearStream's customers' capital spending budgets have been reduced in the near-term and there is significant uncertainty as to the scale and duration of these developments.

Management therefore performed impairment tests as at March 31, 2020 for the Wear and UWO CGUs, both of which are within the Wear Technology Overlay services segment. This testing resulted in the carrying amount of the UWO CGU exceeding its recoverable amount by $5,000 and therefore the goodwill within that CGU was impaired by $5,000.

Based on the results of the impairment test for the Wear CGU, the recoverable amount exceeded its carrying amount and no impairment was required to be recorded.

ClearStream assessed all of the other CGUs and combinations of CGUs for any indicators of impairment at March 31, 2020, and determined that no further impairment testing was required.

Valuation technique

The recoverable amounts of ClearStream's CGUs were calculated based on fair value less costs of disposal, which is considered to be a level three estimate. The fair value less costs of disposal was determined through a discounted cash flow ("DCF") approach for all CGUs. The DCF method involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risk associated with the business or asset and the time value of money. This approach requires assumptions about earnings before taxes, interest, depreciation and amortization ("EBITDA"), capital expenditures, growth rates, working capital and discount rates.

Projected EBITDA and Capital Expenditures

Projected EBITDA and capital expenditures are based on ClearStream's internal budget for the following year and take into consideration past experience, economic trends and market/industry trends at the time the budget is developed. The annual budget is developed during the fourth quarter of the previous year and is updated quarterly by senior management based on actual results; anticipated future cash flows are updated to reflect any subsequent changes in expected demand for products and services.

Growth rate and terminal value

ClearStream used projected EBITDA and capital expenditures for the following year and applied a perpetual long-term growth rate of 2% thereafter for the Wear and UWO CGUs. The perpetual growth rates are management's estimate of long-term inflation and productivity growth in the industry and geographic locations in which it operates.

Discount rate

ClearStream assumed post-tax discount rates of 20.5-25.25% in order to calculate the present value of projected future cash flows. The discount rates represent a weighted average cost of capital ("WACC") for comparable companies operating in similar industries based on publicly available information for each CGU. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate, adjusted for risks specific to each CGU.

The recoverable amount of the Wear CGU exceeded its carrying amount by approximately $12,200 at March 31, 2020. If the discount rate applied to the Wear CGU increased by 10%, the excess of recoverable amount over carrying value would be reduced to nil.

5. Deferred consideration

On June 28, 2019, the Company acquired 100% of the issued and outstanding shares of UWO. The total purchase price of $16,024 included deferred consideration of $1,114 (undiscounted - $1,300), which represents the fair value of three equal installments of $433 due on June 28, 2020, 2021 and 2022. Deferred consideration at March 31, 2020 of $1,181 reflects an increase from the acquisition date as a result of the passage of time.

6. Earn-out contingent liability

On June 28, 2019, the Company acquired 100% of the issued and outstanding shares of UWO. The total purchase price of $16,024 included an earn-out contingent liability of $861 (undiscounted - $1,612), which represents the fair value of the expected payout to the sellers on June 28, 2022, based on management's best estimate of performance against agreed targets for average three-year EBITDA (as defined in the purchase and sale agreement). The maximum undiscounted earn-out is $2,000. The earn-out contingent liability has decreased from $861 (undiscounted - $1,612) at December 31, 2019 to $476 (undiscounted - $790) at March 31, 2020.

7. Refinancing transactions

a. ABL Facility

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

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

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at March 31, 2020 is $63,283 (December 31, 2019 - $50,000). The obligations under the ABL Facility are secured by, among other things, a first ranking lien on all of the existing and after acquired accounts receivable and inventories of the borrower and the other guarantors, being the Company and certain of its direct and indirect subsidiaries. The interest rate on the Revolving Facility is prime plus 2.5%, increasing to prime plus 4.0% if the Revolving Facility is more than 50% drawn.

As at March 31, 2020, $16,825 (December 31, 2019 - $27,825) was drawn on the Revolving Facility, and there were $3,230 (December 31, 2019 - $2,930) of letters of credit further reducing the amount available to be drawn. As at March 31, 2020, the net unamortized amount of deferred financing costs was $454 (December 31, 2019 - $883).

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

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

- The Company must maintain a fixed charge coverage ratio equal to or greater than 1.00:1.00 for each twelve month period calculated and tested as of the last day of each fiscal quarter (commencing March 31, 2020); and
- The Company must not expend or become obligated for any capital expenditures in an aggregate amount exceeding $6,600 during the period commencing January 1, 2020 and ending December 31, 2020, and any fiscal year thereafter.

At March 31, 2020, ClearStream was in compliance with all financial covenants under the ABL Facility.

b. 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 acquisition of certain assets of the production services division of AECOM Production Services Ltd. (the "AECOM PSD Business").

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.

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

The loans are secured by a first security interest on the equipment acquired through the acquisition of the AECOM PSD Business 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 on annual basis.

At March 31, 2020, ClearStream was in compliance with all financial covenants under the BDC agreement.

8. Revenue

For the three months ended March 31,		2020		2019
Rendering of services	$	115,032	$	65,267
Sales of goods		11,767		18,686
Total revenue	$	126,799	$	83,954

9. Selling, general & administrative expenses

For the three months ended March 31,		2020		2019
Salaries & benefits	$	4,555	$	2,896
Occupancy and office costs		475		370
Professional fees		713		929
Travel		325		270
Repairs & maintenance		9		69
Insurance		376		538
Other		89		78
Total	$	6,542	$	5,150

10. Share capital and loss per share

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 March 31, 2020, our issued and outstanding share capital included 109,992,668 common shares, 127,735 Series 1 preferred shares, and 40,111 Series 2 preferred shares.

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 Company allocated $363 in deferred financing costs to this transaction. Holders of the preferred shares have the right, at 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 and unpaid dividends, once all of the senior secured debentures have been repaid, as well as in the event of certain change of control transactions.

In the fourth quarter of 2019, 51,427 common shares were issued upon the conversion of 18 Series 1 preferred shares.

As at March 31, 2020, the accrued and unpaid dividends on the Series 1 and Series 2 preferred shares totaled $30,490. Assuming that the holders of the preferred shares exercise the right to convert such accrued and unpaid dividends into additional preferred shares and then convert such preferred shares into common shares, approximately 108,900,000 common shares would be issued, which represents approximately 99% of the common shares outstanding as of March 31, 2020.

The only potentially dilutive securities as at March 31, 2020 were the preferred shares, stock options, and performance share units. As a result of the net losses incurred in all periods presented, all potentially dilutive securities were anti-dilutive.

The following table summarizes the number of preferred and common shares:

	Series I	Series II	Common Shares
Balance as at January 1, 2019	127,753	—	109,941,241
Issued	—	40,111	—
Converted to Common shares	(18)	—	51,427
Balance as at December 31, 2019	127,735	40,111	109,992,668
Balance as at March 31, 2020	127,735	40,111	109,992,668

11. Share-based compensation and other long-term incentive plans

The Board of Directors approved the Cumulative Value Creation Unit (“CVCU”) Plan on June 19, 2019.

CVCUs provide eligible participants with a cash settlement based on the calculation of cumulative value creation, which represents the increase in the value of the Company's equity over a specified period. CVCUs cliff vest based on service requirements three years after the start of the performance period.

Each CVCU has a value of $1,000. The number of CVCUs that will vest depends on an EBITDA-based performance condition and is therefore subject to estimation uncertainty.

CVCUs are settled in cash and payable within one month following approval of the Company's annual financial statements for the final fiscal year in the performance period.

The carrying amount of nil (December 31, 2019 - $1,109) is recorded as accounts payable and accrued liabilities, and represents the net present value of future cash payments expected to be earned under the program based on management's best estimate of EBITDA over the performance period, adjusted for the portion of the performance period that has been completed. The fair value of the CVCUs approximates their intrinsic value as the awards have no exercise price.

The following table summarizes the carrying amount:

Opening balance December 31, 2019	$	1,109
Carrying amount of liabilities for CVCUs:		
Long-term portion		(1,109)
Total intrinsic value of liability for vested benefits	$	—

12. Financial instruments and risk management

Financial instruments consist of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, ABL Facility, senior secured debentures, other secured borrowings, deferred consideration and earn-out liability.

a. 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 and liquidity risk.

i. 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:

		March 31, 2020		December 31, 2019
Cash	$	—	$	7,109
Restricted cash		805		805
Accounts receivable		127,552		138,638
Total	$	128,357	$	146,552

Cash is held at Canadian Schedule A Banks and is therefore considered low credit risk.

ClearStream has a credit policy under which each new customer is analyzed individually for creditworthiness before standard payment terms and conditions are offered. ClearStream's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. When available, ClearStream reviews credit bureau ratings, bank accounts and financial information for each new customer. ClearStream's customers are primarily multinational oil and gas and construction companies, all of which have strong creditworthiness.

Of the total balance of accounts receivable at March 31, 2020, $97,206 (December 31, 2019 - $99,305) related to trade receivables and $30,346 (December 31, 2019 - $39,333) 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 March 31, 2020, approximately $6,886 of ClearStream's trade receivables had been outstanding longer than 90 days (December 31, 2019 - $5,856). Management has fully evaluated the outstanding receivables as at March 31, 2020 and has determined that the lifetime expected credit losses of the trade receivables was immaterial at this time.

ii. Liquidity risk

Liquidity risk is the risk that ClearStream will not be able to meet its financial obligations as they come due. ClearStream's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

All of ClearStream's financial liabilities are current with the exception of its senior secured debentures, which are due March 2026, and other secured borrowings, which are due June 2025 and March 2045.

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.

The Company's liquidity and cash flow from operations has been impacted by a variety of external factors including: (a) further volatility in crude oil prices due to macro-economic uncertainty; and (b) COVID-19 impacting both the global and local economy in general and global oil demand in particular. As a result of these factors and a lack of available storage capacity, Canadian heavy oil producers have significantly scaled back their production operations, which has had a significant impact on our business and triggered deferrals in turnaround activity.

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

To maintain additional financial flexibility, we have also requested our lenders to defer interest and principal payments, waive compliance with financial covenants if required and defer other payments and fees. We have reached an agreement in principle with (i) the provider of the Term Loan Facility to defer the payment of interest to March 31, 2021, and (ii) the holders of the senior secured debentures to accept payment of the interest owing on June 30, 2020 and December 31, 2020 in the form of additional senior secured debentures.

Based on current forecast, which assumes the interest payment relief described above and receipt of funding available to ClearStream through the programs introduced by the Federal and Provincial governments to provide support to businesses, the Company anticipates having sufficient cash flow from operations and available credit facilities to meet its short-term contractual obligations and to maintain compliance with its financial covenants through March 31, 2021.

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

13. Segment information

The Company has organized the business around differences in products and services provided to customers. All or substantially all of ClearStream's operations, assets and employees are located in Canada.

ClearStream has five operating segments, which are aggregated into two reportable segments, as follows:

- The Maintenance and Construction reportable segment is a fully integrated provider of maintenance and construction services to the energy industry. This segment 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 Maintenance and Construction reportable segment consists of the Union and Non-union operating segments as well as the Environmental operating segment on the basis of the similarities in their service offerings, customers, methods and business environment.
- The Wear Technology Overlay services segment specializes in the supply and fabrication of overlay pipe spools, pipe bends, wear plate, welding services, custom fabrication, pipe management and storage services focused on servicing our clients across various end markets such as Oil & Gas, Power, Government, Mining and Forestry. This reportable segment consists of the Wear and UWO segments on the basis of similarities in their service offerings, customers and methods.

In addition to the reportable operating segments, the Corporate division is a standard head office function, which deals with strategic planning, corporate communications, taxes, legal, marketing, finance, financing (including interest expense), human resources and information technology for the entire organization.

The Eliminations column includes adjustments required to account for joint ventures as equity investments, and eliminations of interdivisional transactions. ClearStream accounts for intersegment sales based on transaction price.

For the three months ended March 31, 2020	Maintenance and Construction Services	Wear Technology Overlay services	Corporate	Eliminations	Total
Revenues	$ 115,344	$ 11,767	$ —	$ (313)	$ 126,799
Cost of revenues	(108,641)	(9,326)	—	313	(117,653)
Gross profit	6,703	2,442	—	—	9,146
Selling, general & administrative	(190)	(22)	(6,330)	—	(6,542)
Share-based compensation and other long-term incentive plans	—	—	1,109	—	1,109
Amortization of intangible assets	(39)	(313)	—	—	(351)
Depreciation expense	(2,115)	(805)	(393)	—	(3,312)
Income from equity investment	49	—	—	—	49
Interest expense	(318)	73	(3,852)	—	(4,097)
Restructuring costs	(16)	(16)	(381)	—	(413)
Impairment of intangible assets and goodwill	—	(5,000)	—	—	(5,000)
Gain on sale of property, plant and equipment	140	—	—	—	140
Income (loss) from continuing operations	$ 4,214	$ (3,640)	$ (9,847)	$ —	$ (9,272)

For the three months ended March 31, 2019	Maintenance and Construction Services	Wear, Fabrication, and Environmental services	Corporate	Eliminations	Total
Revenues	$ 67,390	$ 17,029	$ —	$ (465)	$ 83,954
Cost of revenues	(63,194)	(12,507)	—	465	(75,236)
Gross profit	4,196	4,522	—	—	8,718
Selling, general and administrative expenses	(193)	(381)	(4,576)	—	(5,150)
Share-based compensation and other long-term incentive plans	—	—	(64)	—	(64)
Amortization of intangible assets	(269)	(63)	—	—	(332)
Depreciation	(1,350)	(830)	(884)	—	(3,064)
Income from equity investment	25	—	—	—	25
Interest expense	(332)	(154)	(3,860)	—	(4,346)
Restructuring costs	(8)	—	(53)	—	(61)
Gain on sale property, plant and equipment	52	—	—	—	52
Income (loss) from continuing operations	$ 2,121	$ 3,094	$ (9,437)	$ —	$ (4,222)

ClearStream

Corporate Office
Suite 1650, 311 - 6th Avenue SW
Calgary, Alberta, Canada
Tel: 587.318.0997
InvestorRelations@clearstreamenergy.ca

CLEARSTREAMENERGY.CA