



SECOND QUARTER 2020



Helping Customers Bring Resources to Our World.

MESSAGE TO SHAREHOLDERS

As anticipated at the end of the first quarter of 2020, the impacts from the COVID-19 pandemic were far reaching on both global and local commerce during the second quarter of 2020. Due to public health measures, the movement of people and goods were severely restricted and economic activity contracted significantly in Canada and most countries around the world.

While the economic slowdown precipitated by the pandemic was already reducing the demand for petroleum products, the Organization of the Petroleum Exporting Countries (OPEC) and its allies were unable to reach an agreement on continued production curtailments and began increasing market supply by the end of the first quarter. This resulted in WTI oil prices collapsing from a level of US\$50/barrel in early 2020 to less than US\$12/barrel in late April (and even traded at negative prices for the first time in history), with the prices for Canadian heavy oil trading even lower. On April 12, 2020, OPEC and its allies reached an agreement on new production quotas to take effect on May 1, 2020. This agreement provided support for WTI oil prices, which had recovered to approximately US\$40/barrel by mid-July.

The rapid evolution of the COVID-19 pandemic combined with the collapse in oil prices resulted in producers of Canadian heavy oil (which trades at a price discount to WTI) significantly scaling back their production output and spending. This significantly impacted our contracting business in Fort McMurray and our Wear manufacturing business, triggered the deferral of turnaround projects scheduled for the second quarter (to later in 2020 and next year) and resulted in a material reduction in maintenance activities.

These impacts are reflected in our financial results for the second quarter, which has historically been one of our highest revenue periods with clients completing turnaround projects on their facilities. Revenues for the three months ended June 30, 2020 were \$81.0 million, representing decreases of \$45.7 million or 36% from the first quarter of 2020 and \$22.7 million or 22% from the second quarter of 2019 (which did not include results from the acquisitions completed in mid-2019). Gross profit margins decreased significantly due to a reduction in both the total volume of business and the lower volume of higher margin work in the Wear Technology Overlay Services segment where certain fixed costs are required to operate the facilities. In addition, customers requested pricing concessions that were only partially offset by various cost reduction measures.

In response to the combined effect of the pandemic and oil price collapse on our business, we proactively made the following adjustments to our cost structure:

- Reduced our hourly workforce by 40% and salaried workforce by 30% through temporary and permanent layoffs;
- Curtailed all non-essential and discretionary spending, and reduced certain employee benefits to maintain our market competitiveness;
- Reduced temporarily Executive Leadership Team and Director compensation;
- Consolidated facilities in our Wear Technology Overlay Services segment to reduce fixed costs and increase manufacturing flexibility; and
- Applied for the Canada Emergency Wage Subsidy. To-date, we have received over \$8 million from this program.

These adjustments were designed to protect our liquidity and capital resources, preserve our ability to promptly ramp up activity and avoid long-term consequences to our capabilities and service offerings. During the second quarter, we began to recall our hourly workforce as the volume of work increased, which reduced the overall hourly workforce reduction to 25% (from a peak of 40%).

As at June 30, 2020, ClearStream had cash and available credit facilities of \$51.5 million (March 31, 2020 - \$37.9 million and December 31, 2019 - \$19.2 million). As announced on June 3, 2020 and in order to maintain additional financial flexibility, we have also received from our lenders the ability to defer interest and principal payments, waive compliance with financial covenants and defer other payments and fees. We were in

compliance with all financial covenants at June 30, 2020 and, therefore, did not need to rely on the financial covenant waiver.

Bidding activity remains strong as clients prepare for maintenance and construction activity to resume as the economy re-opens. Between April 1 and July 29, 2020, we have secured contract renewals and new project awards with major upstream, midstream and downstream energy companies in Canada that are estimated to generate approximately \$165 million in new backlog. ClearStream's Flint, Wear, Universal Weld Overlays and Environmental Services divisions will be executing the work, which will consist of facility construction, maintenance, turnarounds, abrasion and corrosion resistant applications, and environmental professional services. A portion of the work has already commenced with the remainder expected to start in the third quarter of 2020. In addition, we are actively pursuing opportunities with our clients to secure funding under the various federal and provincial site reclamation programs across British Columbia, Alberta and Saskatchewan.

With reduced activity levels during the quarter, we have taken the opportunity to accelerate our focus on internal business process improvements and automation, as well as new digital service offerings. We entered into a new strategic alliance with Cumulus Digital Systems and launched the "Cumulus Smart Torque System (STS)" in Canada. We will be implementing this technology across our Canadian operations to improve our maintenance processes, minimize our client's downtime and maximize their profitability, while ensuring long-term asset integrity.

Since the addition of Flint and Universal Weld Overlays as divisions of ClearStream in mid-2019, as well as the expansion of our Environmental Services division, we have continued to add new offerings, and are now able to serve our clients with a suite of 40 services that encompass the full asset lifecycle, delivered through the extensive regional coverage provided by our 15 operating facilities. We believe that ClearStream is well-positioned to consolidate further multiple services required at various operating sites while generating efficiencies and cost reductions for its 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 the cost mitigation measures implemented to-date will protect our liquidity and capital resources, preserve our ability to ramp up activity in the future and avoid long-term consequences to our capabilities and service offerings; contract renewals and new project awards, including the estimated value thereof and the timing of commencing the work associated therewith; the use of technology to improve our maintenance processes; 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

July 29, 2020

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, balance sheets and cash flows of ClearStream Energy Services Inc. ("ClearStream" or the "Company") for the three and six months ended June 30, 2020 and 2019. This MD&A should be read in conjunction with ClearStream's condensed consolidated interim unaudited financial statements and notes for the three and six months ended June 30, 2020 and 2019 and the consolidated audited 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 July 29, 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 as well as abandonment, decommissioning, and reclamation services.
Wear Technology Overlay Services	Custom fabrication services supporting pipeline and infrastructure projects, patented wear overlay technology services specializing in overlay pipe spools, pipe bends and plate.
Corporate	ClearStream head office management, administrative, legal and interest expense costs.

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

Advisory regarding Forward-Looking Information

Certain information included in this MD&A may constitute “forward-looking information” within the meaning of Canadian securities laws. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other similar expressions concerning matters that are not historical facts. Specifically, this MD&A contains forward-looking information relating to: our business plans, strategies and objectives; the effects of the COVID-19 pandemic on global commerce and oil prices; that the COVID-19 outbreak and other market conditions will have longer term impacts on our activity levels and margins; 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; that the COVID-19 outbreak and other market conditions will have longer term impacts on our activity levels and margins; that we will see the full benefit of the adjustments to our cost structure over the remainder of 2020; the consolidation of our wear technology overlay facilities, including the timing of completion and the benefits thereof; the receipt of the Canada Emergency Wage Subsidy; the sufficiency of our cash flow from operations and available credit facilities to meet our short-term contractual obligations and maintain compliance with our financial covenants through June 30, 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 customers will increase maintenance and capital spending in the second half of 2020; that customers will maintain spending discipline; the effect of public health measures on the overall economic recovery; that overall market conditions are anticipated to remain uncertain for the foreseeable future; that we expect that maintenance and turnaround activity will eventually increase as customers focus on asset management and integrity services; and that our profitability will improve in the second half of 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, 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, gain on remeasurement of right-of-use assets, and government subsidies. ClearStream has used Adjusted EBITDAS as the basis for the analysis of its past operating financial performance. Adjusted EBITDAS is used by ClearStream and management believes it is a useful supplemental measure from which to determine ClearStream’s ability to generate cash available for debt service, working capital, capital expenditures, and income taxes. Adjusted EBITDAS is a measure that management believes facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors. ClearStream has provided a reconciliation of income (loss) from continuing operations to Adjusted EBITDAS in this MD&A.

Investors are cautioned that the Non-standard measures are not alternatives to measures under IFRS and should not, on their own, be construed as an indicator of performance or cash flows, a measure of liquidity or as a measure of actual return on the shares. These Non-standard measures should only be used with

reference to ClearStream's Interim Financial Statements and Annual Financial Statements available on SEDAR at www.sedar.com or on ClearStream's website at www.clearstreamenergy.ca.

2020 RESULTS – CONTINUING OPERATIONS

Summary Results (\$000's)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 81,037	\$ 103,690	\$ 207,836	\$ 187,644
Cost of revenue	(75,007)	(92,480)	(192,486)	(167,464)
Gross profit	6,030	11,210	15,350	20,180
Selling, general and administrative expenses	(4,717)	(6,369)	(11,433)	(11,771)
Share-based compensation and other long-term incentive plans recovery (expense)	—	—	1,109	(64)
Amortization of intangible assets	(482)	(224)	(833)	(556)
Depreciation expense	(3,666)	(3,088)	(6,978)	(6,152)
Income from equity investment	140	—	189	25
Interest expense	(4,546)	(4,129)	(8,643)	(8,474)
Restructuring recovery (expense)	16	(4,382)	(397)	(4,443)
Impairment of intangible assets and goodwill	—	—	(5,000)	—
Impairment of right-of-use assets	—	(2,042)	—	(2,042)
Bargain purchase gain	—	12,272	—	12,272
Gain on remeasurement of right-of-use assets	—	127	—	127
(Loss) gain on sale of property, plant and equipment	(113)	55	27	107
Income tax recovery - current	65	—	65	—
Income tax recovery - deferred	—	3,663	—	3,663
Income from government subsidies	8,576	—	8,576	—
Income (loss) from continuing operations	1,303	7,093	(7,968)	2,871
Add:				
Amortization of intangible assets	482	224	833	556
Depreciation expense	3,666	3,088	6,978	6,152
Share-based compensation and other long-term incentive plans (recovery) expense	—	—	(1,109)	64
Interest expense	4,546	4,129	8,643	8,474
Income tax recovery - current	(65)	—	(65)	—
Income tax recovery - deferred	—	(3,663)	—	(3,663)
EBITDAS	9,932	10,871	7,312	14,454
Loss (gain) on sale of property, plant and equipment	113	(55)	(27)	(107)
Impairment of intangible assets and goodwill	—	—	5,000	—
Restructuring (recovery) expense	(16)	4,382	397	4,443
One-time incurred expenses	411	1,373	411	1,617
Impairment of right-of-use assets	—	2,042	—	2,042
Income from government subsidies	(8,576)	—	(8,576)	—
Bargain purchase gain	—	(12,272)	—	(12,272)
Gain on remeasurement of right-of-use assets	—	(127)	—	(127)
Adjusted EBITDAS	\$ 1,864	\$ 6,214	\$ 4,517	\$ 10,051

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income (loss) per share (dollars)				
Basic & Diluted:				
Continuing operations	\$ 0.01	\$ 0.06	\$ (0.07)	\$ 0.03
Discontinued operations	\$ —	\$ —	\$ —	\$ 0.02
Net income (loss) and comprehensive income (loss)	\$ 0.01	\$ 0.06	\$ (0.07)	\$ 0.05

Selected Balance Sheet Accounts	June 30, 2020	December 31, 2019
Total assets	\$ 210,476	\$ 257,573
ABL facility	40,212	67,442
Senior secured debentures	100,929	96,955
Other secured borrowings	17,873	18,621
Shareholders' deficit	\$ (31,496)	\$ (23,438)

SECOND QUARTER 2020 RESULTS

Revenues for the three and six months ended June 30, 2020 were \$81,037 and \$207,836 compared to \$103,690 and \$187,644 for the same periods in 2019, a decrease of 22% and increase of 11%, respectively. This increase in the six months ended June 30, 2020, in comparison to the same period in 2019, was 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 in the three months ended June 30, 2020 by a reduction of revenue 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, the economic impact of the COVID-19 pandemic, and potential lack of storage capacity, forcing production shut-ins at various sites in Western Canada.

Gross profit for the three and six months ended June 30, 2020 was \$6,030 and \$15,350 compared to \$11,210 and \$20,180 for the same periods in 2019, a decrease of 46% and 24%, respectively. Gross profit margins for the three and six months ended June 30, 2020 were 7.4% and 7.4% compared to 10.8% and 10.8% for the same periods in 2019. The decreases for the three and six months ended June 30, 2020 were due to a reduction in both the total volume and the volume of higher margin work in the Wear Technology Overlay Services segment where certain fixed costs are required to operate the facilities in addition to downward pressure on margins by customers in response to market uncertainty. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins across the whole business, we took immediate steps to adjust our cost structure, for which we will see the full benefit over the remainder of 2020.

Selling, general and administrative ("SG&A") expenses for the three and six months ended June 30, 2020 were \$4,717 and \$11,433, in comparison to \$6,369 and \$11,771 for the same periods in 2019, a decrease of 26% and 3%, respectively. As a percentage of revenue, SG&A expenses for the three and six months ended June 30, 2020 were 5.8% and 5.5% compared to 6.1% and 6.3% for the same periods in 2019. The decreases for the three and six months ended June 30, 2020 were due to the net effect of lower SG&A expenses in 2020 due to the implementation of cost reduction initiatives near the end of the first quarter and higher expenses in 2019 due to the Company's growth and business process improvement initiatives as well as one-time expenses including termination benefits.

Non-cash items that impacted the 2020 results were depreciation, amortization, and the reversal of share-based compensation and other long-term incentive plans. For the three and six months ended June 30, 2020, depreciation and amortization expense was \$4,148 and \$7,811 compared to \$3,312 and \$6,708 for the same periods in 2019, an increase of 25% and 16%, respectively. The 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. Recovery of the share-based compensation and other long-term incentive plans for the six months ended June 30, 2020 of \$1,109, in comparison to an expense of \$64 for the same period in 2019, represents the change in the net present value of future cash payments expected to be earned under the Cumulative Value Creation Unit Plan. This amount will fluctuate period to period based on management's best estimate of Adjusted EBITDAS over the performance period.

For the three and six months ended June 30, 2020, interest expenses were \$4,546 and \$8,643 compared to \$4,129 and \$8,474 for the same periods in 2019, an increase of 10% and 2%, respectively. These increases resulted 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 (recovery) expense of (\$16) and \$397 was recorded during the three and six months ended June 30, 2020 compared to expense of \$4,382 and \$4,443 for the same periods in 2019. These non-recurring restructuring costs in 2019 were related to the acquisitions of the AECOM PSD Business and UWO, which closed on June 28, 2019, as well as termination benefits.

Impairment of \$5,000 was recorded in the six months ended June 30, 2020 as a result of the identification of indicators of impairment at March 31, 2020 related to the forecasted impact of the COVID-19 pandemic, which has decreased global demand for oil and gas, resulting in a reduction in long-term commodity price outlooks. Management therefore performed impairment tests as at March 31, 2020 for the Wear and UWO cash-generating units ("CGUs"), both of which are within the Wear Technology Overlay Services segment. This testing resulted in

an impairment of the UWO CGU of \$5,000 in the six months ended June 30, 2020. No impairment was required for the Wear CGU.

Government subsidies represent the Canada Emergency Wage Subsidy received from the Government of Canada to assist with the payment of employee wages as a result of the impact of the COVID-19 pandemic during the three and six months ended June 30, 2020.

Income (loss) from continuing operations for the three and six months ended June 30, 2020 was an income of \$1,303 and a loss of \$7,968, in comparison to an income of \$7,093 and \$2,871 for the same periods in 2019. The income variances are largely driven by the goodwill impairment loss and decrease to gross profits for the 2020 periods, offset by benefits received from the Canada Emergency Wage Subsidy program, the reversal of the share-based compensation and other long-term incentive plans, and the bargain purchase gain in 2019.

The loss from discontinued operations was \$4 and \$89 for the three and six months ended June 30, 2020, compared to a loss of \$308 and a gain of \$2,334 in comparison for the same periods 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 and six months ended June 30, 2020, Adjusted EBITDAS were \$1,864 and \$4,517 compared to \$6,214 and \$10,051 for the same periods in 2019. As a percentage of revenue, Adjusted EBITDAS was 2.3% and 2.2% for the three and six months ended June 30, 2020 compared to 6.0% and 5.4% for the same periods 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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 74,142	\$ 88,335	\$ 189,487	\$ 156,226
Cost of revenue	(68,832)	(81,011)	(177,427)	(143,749)
Gross profit	5,310	7,325	12,060	12,478
Selling, general and administrative expenses	(166)	(276)	(401)	(617)
Amortization of intangible assets	(65)	(182)	(104)	(451)
Depreciation expense	(2,148)	(1,039)	(4,278)	(2,389)
Income from equity investments	140	—	189	25
Interest expense	(304)	(301)	(619)	(633)
Restructuring costs	(24)	(361)	(41)	(369)
Gain on sale of property, plant and equipment	18	55	158	107
Income from government subsidies	7,175	—	7,175	—
Income from continuing operations	9,936	5,221	14,139	8,152
Add:				
Amortization of intangible assets	65	182	104	451
Depreciation expense	2,148	1,039	4,278	2,389
Interest expense	304	301	619	633
EBITDAS	12,453	6,742	19,140	11,624
Gain on sale of property, plant and equipment	(18)	(55)	(158)	(107)
Restructuring costs	24	361	41	369
Income from government subsidies	(7,175)	—	(7,175)	—
One-time incurred expenses	151	—	151	—
Adjusted EBITDAS	\$ 5,435	\$ 7,047	\$ 11,999	\$ 11,885

REVENUES

Revenues for the Maintenance and Construction Services segment were \$74,142 and \$189,487 for the three and six months ended June 30, 2020 compared to \$88,335 and \$156,226 for the same periods in 2019, which reflects a decrease of 16% and an increase of 21%, respectively. This increase in the six months ended June 30, 2020 was due to the acquisition of the AECOM PSD Business on June 28, 2019. Acquisition driven revenue increases were partially offset in the three months ended June 30, 2020 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, 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 \$5,310 and \$12,060 for the three and six months ended June 30, 2020, compared to \$7,325 and \$12,478 for the same periods in 2019, a decrease of 28% and 3%, respectively. Gross profit margins were 7.2% and 6.4% for the three and six months ended June 30, 2020 compared to 8.3% and 8.0% for the same periods in 2019. The decrease in gross profit margins was due to lower than anticipated volumes from our maintenance and turnaround business relative to indirect costs to manage this business as well as the downward market pressure on margins by our customers.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Maintenance and Construction Services segment were \$166 and \$401 for the three and six months ended June 30, 2020, compared to \$276 and \$617 for the same periods in 2019, a decrease of 40%

and 35%, respectively. The decreases in SG&A expenses were partially due to impacts of our cost mitigation initiatives in response to lower volumes from market uncertainty.

WEAR TECHNOLOGY OVERLAY SERVICES

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 7,377	\$ 16,921	\$ 19,144	\$ 33,449
Cost of revenue	(6,657)	(13,035)	(15,854)	(25,746)
Gross profit	720	3,885	3,290	7,702
Selling, general and administrative expenses	(127)	(119)	(278)	(296)
Amortization of intangible assets	(417)	(43)	(729)	(106)
Depreciation expense	(892)	(1,047)	(1,690)	(1,877)
Interest and foreign exchange expense	(214)	(135)	(135)	(289)
Restructuring recovery (expense)	132	(962)	117	(962)
Impairment of intangible assets and goodwill	—	—	(5,000)	—
Impairment of right-of-use asset	—	(376)	—	(376)
Income from government subsidies	812	—	812	—
Income (loss) from continuing operations	14	1,204	(3,613)	3,797
Add:				
Amortization of intangible assets	417	43	729	106
Depreciation expense	892	1,047	1,690	1,877
Interest expense	214	135	135	289
EBITDAS	1,537	2,428	(1,059)	6,068
Impairment of intangible assets and goodwill	—	—	5,000	—
Restructuring (recovery) expense	(132)	962	(117)	962
Income from government subsidies	(812)	—	(812)	—
One time incurred expenses	202	—	202	—
Impairment of right-of-use asset	—	376	—	376
Adjusted EBITDAS	\$ 795	\$ 3,766	\$ 3,214	\$ 7,406

REVENUES

Revenues for this segment for the three and six months ended June 30, 2020 were \$7,377 and \$19,144, compared to \$16,921 and \$33,449 for the same periods in 2019, a decrease of 56% and 43%, respectively. The decrease in revenue for both periods was due to overall reduced market activity as customers were cautious on spending, lower than anticipated volumes due to the postponement of scheduled maintenance and turnarounds and the closure of two fabrication facilities in mid-2019.

GROSS PROFIT

Gross profit was \$720 and \$3,290 for the three and six months ended June 30, 2020, compared to \$3,885 and \$7,702 for the same periods in 2019, a decrease of 81% and 57%, respectively. Gross profit margins were 9.8% and 17.2% for the three and six months ended June 30, 2020 compared to 23.0% and 23.0% for the same periods in 2019. The decrease in gross profit margins was due to increased competition, a higher proportion of lower margin work in our facilities, and the overall decline in volumes with certain fixed costs remaining steady. As it became clear that the COVID-19 outbreak and other market conditions were going to have longer term impacts on our activity levels and margins, we took immediate steps to adjust our cost structure and optimize our overlay manufacturing footprint by consolidating all operations into our facility in Sherwood Park. We expect to complete the consolidation and the resulting closure of the facilities in Edmonton and Nisku during the third quarter of 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses for the Wear Technology Overlay Services segment were \$127 and \$278 for the three and six months ended June 30, 2020 consistent with \$119 and \$296 for the same periods in 2019.

CORPORATE

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Selling, general and administrative expenses	\$ (4,424)	\$ (5,974)	\$ (10,754)	\$ (10,858)
Share-based compensation and other long-term incentive plans recovery (expense)	—	—	1,109	(64)
Depreciation expense	(626)	(1,003)	(1,010)	(1,887)
Interest expense	(4,028)	(3,693)	(7,889)	(7,553)
Restructuring costs	(92)	(3,060)	(473)	(3,113)
Impairment of right-of-use assets	—	(1,666)	—	(1,666)
Bargain purchase gain	—	12,272	—	12,272
Gain on remeasurement of right-of-use assets	—	127	—	127
Loss on sale of property, plant and equipment	(131)	—	(131)	—
Income tax recovery - current	65	—	65	—
Income tax recovery - deferred	—	3,663	—	3,663
Income from government subsidies	589	—	589	—
(Loss) income from continuing operations	(8,647)	667	(18,494)	(9,078)
Add:				
Depreciation expense	626	1,003	1,010	1,887
Share-based compensation and other long-term incentive plans (recovery) expense	—	—	(1,109)	64
Interest expense	4,028	3,693	7,889	7,553
Income tax recovery - current	(65)	—	(65)	—
Income tax recovery - deferred	—	(3,663)	—	(3,663)
EBITDAS	(4,058)	1,699	(10,769)	(3,237)
Loss on sale of property, plant and equipment	131	—	131	—
Restructuring costs	92	3,060	473	3,113
One-time incurred expenses	58	1,373	58	1,617
Impairment of right-of-use assets	—	1,666	—	1,666
Bargain purchase gain	—	(12,272)	—	(12,272)
Gain on remeasurement of right-of-use assets	—	(127)	—	(127)
Adjusted EBITDAS	\$ (4,366)	\$ (4,601)	\$ (10,696)	\$ (9,240)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses were \$4,424 and \$10,754 for the three and six months ended June 30, 2020 compared to \$5,974 and \$10,858 for the same periods in 2019. SG&A expenses as a percentage of revenue were 5.5% and 5.2% for the three and six months ended June 30, 2020 compared to 5.8% and 5.8% for the same periods in 2019. This decrease in SG&A expenses as a percentage of revenue was due to the implementation of cost reduction initiatives near the end of the first quarter of 2020 and higher expenses in the second quarter of 2019 due to the

Company's growth and business process improvement initiatives as well as one-time expenses including termination benefits.

DISCONTINUED OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
(Loss) gain from discontinued operations	\$ (4)	\$ (308)	\$ (89)	\$ 2,334

The loss from discontinued operations in the second quarter of 2020 was due to expenses that the Company continues to incur relating to Quantum Murray. The gain from discontinued operations in the six months ended June 30, 2019 was due to the Company's share of an income tax reassessment won by Brompton, offset by expenses relating to the sale of businesses prior to March 2018.

LIQUIDITY AND CAPITAL RESOURCES

	June 30, 2020	December 31, 2019
Cash provided by (used in) operating activities	\$ 50,336	\$ (8,426)
Cash used in investing activities	(655)	(54,125)
Cash (used in) provided by financing activities	(32,354)	51,713
Consolidated cash, end of period	\$ 24,436	\$ (10,838)

The Company's liquidity and cash flow provided from operations has been driven by a significant release of working capital as revenues for the three months ended June 30, 2020 declined significantly from the three months ended December 31, 2019 and the three months ended March 31, 2020. This was further impacted by internal billing efficiencies realized in 2020 and the receipt of the Canada Emergency Wage subsidy.

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

To maintain additional financial flexibility, we have established agreements with our lenders to defer interest and principal payments, waive compliance with financial covenants and defer other payments and fees as described under Financing Activities below.

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

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

OPERATING ACTIVITIES

Cash flow provided by (used in) operating activities represents the net income (loss) incurred during the three and six months ended June 30, 2020 and 2019 adjusted for interest and non-cash items, combined with the decrease in working capital.

INVESTING ACTIVITIES

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

the acquisition of UWO, offset partially by proceeds from the disposal of certain assets as well as dividend proceeds from an equity investment.

FINANCING ACTIVITIES

a. ABL Facility

The Company established an asset-based lending facility (the "ABL Facility") pursuant to the terms of the Third Amended and Restated Credit Agreement, which is comprised of (i) a revolving credit facility providing for maximum borrowings that range from \$50,000 to \$65,000 depending on the period (currently \$65,000) (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 May 29, 2020, the Lenders and Canso have agreed to amend the ABL Facility to, among other things: (a) provide the option to defer interest owing on amounts drawn on the Revolving Facility at the end of May, June and July 2020 (with any such deferred amounts to be paid on August 31, 2020); (b) defer interest payments on amounts drawn on the Term Loan Facility from May 29, 2020 to March 31, 2021 (with such deferred amounts to be paid on March 31, 2021); (c) waive compliance with the fixed charge coverage ratio covenant for the fiscal quarter ending June 30, 2020; (d) defer the payment of certain fees (with any such deferred amounts to be paid on August 31, 2020); and (e) permit the Payment in Kind Transactions (as defined under Senior Secured Debentures below). Assuming that the amount drawn on the Term Loan Facility remains constant at \$40,500 and based on the current interest rate, the deferred interest payments on the Term Loan Facility from May 29, 2020 to March 31, 2021 will total approximately \$3,000. As of June 30, 2020, interest on the Term Loan Facility of \$235 was deferred and accrued for in the ABL Facility payable balance.

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

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at June 30, 2020 was \$32,072 (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 June 30, 2020, \$nil (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 June 30, 2020, the net unamortized amount of deferred financing costs was \$522 (December 31, 2019 - \$883).

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

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

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

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

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

b. Other Secured Borrowings

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

On March 30, 2020, the Company signed an agreement with the Business Development Bank of Canada to postpone effective May 1, 2020 all principal payments on the loans for a period of six months with the postponed payments being added to the end of loan term. As a result, the final payment 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.

c. Senior Secured Debentures

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

Critical Accounting Policies and Estimates

ClearStream prepares its consolidated financial statements in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Based on the current environment, significant market uncertainty exists that could impact the estimates and assumptions made by the ClearStream. Significant accounting policies and methods used in the preparation of the consolidated financial statements, including use of estimates and judgments, are described in note 1 of the condensed 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 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Revenue	\$ 81,037	\$ 126,799	\$ 137,066	\$ 139,542	\$ 103,690	\$ 83,954	\$ 77,840	\$ 85,996
Gross Profit Margin	\$ 6,030	\$ 9,146	\$ 15,158	\$ 16,127	\$ 11,571	\$ 8,718	\$ 6,169	\$ 7,400
Gross Profit Margin %	7.4 %	7.2 %	11.1 %	11.6 %	11.2 %	10.4 %	7.9 %	8.6 %
Net income (loss) from continuing operations	\$ 1,303	\$ (9,272)	\$ (10,449)	\$ 928	\$ 7,091	\$ (4,222)	\$ (3,153)	\$ (20,834)
Net income (loss)	\$ 1,299	\$ (9,357)	\$ (10,536)	\$ 619	\$ 6,785	\$ (1,580)	\$ (2,543)	\$ (20,694)
Net income (loss) per share from continuing operations	\$ 0.01	\$ (0.08)	\$ (0.09)	\$ 0.01	\$ 0.06	\$ (0.04)	\$ (0.03)	\$ (0.19)
Net income (loss) per share	\$ 0.01	\$ (0.09)	\$ (0.10)	\$ 0.01	\$ 0.06	\$ (0.01)	\$ (0.02)	\$ (0.19)

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 June 30, 2020, directors, officers and key employees beneficially held an aggregate of 11,868,442 common shares or 10.79% of the issued and outstanding common shares. Two leases for properties with quarterly rents of \$78 and \$100 are with a landlord in which certain directors of ClearStream hold an indirect minority interest. These transactions occurred in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to between the parties.

SHARE CAPITAL

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

As of June 30, 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 June 30, 2020, the accrued and unpaid dividends on the Series 1 and Series 2 preferred shares totaled \$34,663. 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 127,900,000 common shares would be issued, which represents approximately 116% of the common shares outstanding as of June 30, 2020.

OUTLOOK

Overall market conditions have started to experience some recovery with the stabilization and slight recovery in oil prices. Our customers are expected to increase maintenance and capital spending in the second half of 2020 as a result of the recovery in oil prices from the lows set in April 2020, the easing of some of the public health measures implemented during the pandemic, as well as the rescheduling of some necessary turnaround activities from the second to the third quarter of 2020.

However, customers are likely to maintain spending discipline as a result of the continuing measures to try to limit the spread of the virus, including travel restrictions, border closures, quarantines and social distancing. These

ongoing measures will likely slow the overall economic recovery. As such, overall market conditions are anticipated to remain uncertain for the foreseeable future. Upstream, midstream and downstream companies will continue to carefully manage spending for capital projects and operations where possible until further confidence in market stability has returned.

We expect that maintenance and turnaround activity will eventually increase as customers focus on asset management and integrity services to increase operational reliability. With contract renewals and new project awards secured in the second quarter and early in the third quarter, as well as the full impact of cost mitigation measures already implemented in the second quarter, we expect ClearStream's profitability to improve in the second half of 2020.

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 profit margins. The Company may face disruption to operations, supply chain delays, travel and trade restrictions and the impact on economic activity can be difficult to quantify. Such pandemics or diseases represent a serious threat to maintaining a skilled workforce and could be a major healthcare challenge for the Company. There can be no assurance that the Company's personnel will not be impacted by COVID-19 and ultimately that the Company would see its workforce productivity reduced. In addition, the COVID-19 pandemic has created a dramatic slowdown in both the global and local economy. The duration of the COVID-19 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 profit margins which in turn will put pressure on its financial liquidity.

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

- The Company's credit facilities may not provide sufficient liquidity;
- Failure to comply with the covenants in the agreements governing the Company's debt could adversely affect the Company's financial condition;
- The Company's business depends on the oil and natural gas industry and particularly on the level of exploration, development and production for North American oil and natural gas, which is volatile;
- The Company relies on certain key personnel whose absence or loss could disrupt its operations and have a material adverse 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 June 30, 2020.

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

ADDITIONAL INFORMATION

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF

CLEARSTREAM ENERGY SERVICES INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

(UNAUDITED)

Consolidated Interim Balance Sheets

(In thousands of Canadian dollars)

(Unaudited)

	Notes	June 30, 2020	December 31, 2019
Assets			
Cash		\$ 24,436	\$ 7,109
Restricted cash		—	805
Accounts receivable	13	80,337	138,638
Inventories	2	9,097	9,739
Prepaid expenses		2,322	1,888
Total current assets		116,192	158,178
Property, plant and equipment	3	78,850	78,244
Goodwill and intangible assets	4	14,826	20,332
Long-term investments		608	819
Total assets		\$ 210,476	\$ 257,573
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		\$ 41,578	\$ 57,472
Deferred consideration	5	771	1,158
Earn-out contingent liability	6	503	1,234
ABL facility	7	40,212	67,442
Current portion of lease liabilities		7,600	7,756
Current portion of provision		—	885
Current portion of other secured borrowings	7	1,042	1,322
Total current liabilities		91,706	137,269
Lease liabilities		31,296	28,278
Other secured borrowings	7	16,831	17,299
Senior secured debentures	7	100,929	96,955
Deferred tax liability		1,210	1,210
Total liabilities		241,972	281,011
Common shares	11	462,054	462,054
Preferred shares	11	141,933	141,933
Contributed surplus		20,679	20,679
Deficit		(656,162)	(648,104)
Total shareholders' deficit		(31,496)	(23,438)
Total liabilities and shareholders' deficit		\$ 210,476	\$ 257,573

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

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

(In thousands of Canadian dollars)

(Unaudited)

		Three months ended June 30,		Six months ended June 30,	
	Notes	2020	2019	2020	2019
Revenue	8	\$ 81,037	\$ 103,690	\$ 207,836	\$ 187,644
Cost of revenue		(75,007)	(92,480)	(192,486)	(167,464)
Gross profit		6,030	11,210	15,350	20,180
Selling, general and administrative expenses	9	(4,717)	(6,369)	(11,433)	(11,771)
Share-based compensation and other long-term incentive plans	12	—	—	1,109	(64)
Amortization of intangible assets	4	(482)	(224)	(833)	(556)
Depreciation expense	3	(3,666)	(3,088)	(6,978)	(6,152)
Income from equity investment		140	—	189	25
Interest expense		(4,546)	(4,130)	(8,643)	(8,475)
Restructuring costs		16	(4,382)	(397)	(4,443)
Impairment of goodwill and intangible assets	4	—	—	(5,000)	—
Impairment of right-of-use assets		—	(2,042)	—	(2,042)
Bargain purchase gain		—	12,272	—	12,272
Gain on remeasurement of right-of-use assets		—	127	—	127
Income from government subsidies	10	8,576	—	8,576	—
(Loss) gain on sale of property, plant and equipment		(113)	55	27	107
Income (loss) from continuing operations before taxes		1,238	3,429	(8,033)	(792)
Income tax recovery - current		65	—	65	—
Income tax recovery - deferred		—	3,663	—	3,663
Income (loss) from continuing operations		1,303	7,092	(7,968)	2,871
(Loss) gain from discontinued operations (net of income taxes)		(4)	(308)	(89)	2,334
Net income (loss) and comprehensive income (loss)		\$ 1,299	\$ 6,784	\$ (8,057)	\$ 5,205

Net income (loss) per share (dollars)

Basic & diluted:

Continuing operations	\$	0.01	\$	0.06	\$	(0.07)	\$	0.03
Discontinued operations	\$	—	\$	—	\$	—	\$	0.02
Net income (loss)	\$	0.01	\$	0.06	\$	(0.07)	\$	0.05

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 Common 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		—	—	—	—	(8,057)	(8,057)
Issuance of preferred shares	11	—	—	—	—	—	—
Conversion of preferred shared to common shares	11	—	—	—	—	—	—
Share-based compensation		—	—	—	—	—	—
At June 30, 2020		109,992,668	\$ 462,054	\$ 141,933	\$ 20,679	\$ (656,162)	\$ (31,496)

	Notes	Number of Common 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 income		—	—	—	—	5,205	5,205
Share-based compensation		—	—	—	12	—	12
Issuance of preferred shares	11	—	—	39,748	—	—	39,748
At June 30, 2019		109,941,241	\$ 462,036	\$ 141,951	\$ 20,728	\$ (638,187)	\$ (13,472)

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 six months ended June 30,	Notes	2020	2019
Operating activities:			
Net (loss) income		\$ (8,057)	5,205
Adjustments for:			
Share-based compensation and other long-term incentive plans		(1,109)	64
Amortization of intangible assets	4	833	556
Depreciation expense	3	6,978	6,152
Income from equity investments		(189)	(25)
Accretion (recovery) expense		(233)	427
Non-cash interest expense	7	3,956	—
Impairment of goodwill and intangible assets		5,000	—
Impairment of right-of-use assets		—	2,042
Amortization of deferred financing costs		931	522
Recovery of contingent consideration liability		(731)	—
Gain on sale of property, plant and equipment	3	(27)	(107)
Gain on remeasurement of right-of-use assets		—	(127)
Bargain purchase gain		—	(12,272)
Deferred income tax recovery		—	(3,663)
Change in provision		—	1,274
Changes in non-cash working capital		42,984	(8,473)
Cash flow provided by (used in) operating activities		\$ 50,336	\$ (8,426)
Investing activities:			
Acquisitions, net of cash acquired		—	(52,798)
Purchase of property, plant and equipment	3	(784)	(1,119)
Net proceeds on disposal of property, plant and equipment	3	490	162
Purchase of intangible assets	4	(328)	(370)
Dividend proceeds from equity investment		400	—
Repayment of deferred consideration	5	(433)	—
Cash flow used in investing activities		\$ (655)	\$ (54,125)
Financing activities:			
Decrease in restricted cash		805	(4)
Repayment of other secured borrowings		(505)	—
Proceeds from the issuance of preferred shares		—	32,200
Proceeds from the issuance of other secured borrowings		—	19,000
Proceeds from the issuance of ABL term loans		—	13,500
Increase in bank indebtedness		—	3,350
Repayment of convertible debentures		—	(1,216)
Refinancing fees	7	(570)	(2,637)
Repayment of ABL facility	7	(27,464)	(8,154)
Repayment of lease liabilities		(4,620)	(4,326)
Cash flow (used in) provided by financing activities		\$ (32,354)	\$ 51,713
Increase (decrease) in cash		17,327	(10,838)
Cash, beginning of period		7,109	10,838
Cash, end of period		\$ 24,436	\$ —

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 July 29, 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.

c. IFRS Standards in effect but not previously applicable

IAS 20 - Government Assistance ("IAS20")

The Company recognizes government subsidies on an accrual basis when there is a reasonable assurance that it will comply with the conditions required to qualify for the subsidy and that the collection of the subsidy is also reasonably assured. Government subsidies are recognized on the Consolidated Balance Sheet under accounts receivable and are recognized on the Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss) over the periods in which the expense that the subsidy is intended to offset are recognized.

2. Inventories

Inventories comprise the following:

	June 30, 2020	December 31, 2019
Raw materials	\$ 5,534	\$ 5,374
Work-in-progress	50	229
Finished goods	2,983	3,473
Parts and supplies	530	663
Total	\$ 9,097	\$ 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	\$ 63,833	\$ 34,254	\$ 145,263
Additions	—	166	409	—	5,891	208	6,675
Remeasurement					1,413		1,413
Disposals	—	—	(7)	—	(592)	(667)	(1,265)
Asset class transfer					(6,290)	6,290	—
Balance as at June 30, 2020	\$ 19,505	\$ 2,740	\$ 17,494	\$ 8,006	\$ 64,256	\$ 40,085	\$ 152,086
Accumulated Depreciation							
Balance as at December 31, 2019	\$ 763	\$ 1,434	\$ 9,089	\$ 7,909	\$ 27,758	\$ 20,066	\$ 67,019
Depreciation	351	166	731	39	4,111	1,580	6,978
Disposals	—	—	(7)	—	(441)	(314)	(761)
Asset class transfer					(5,317)	5,317	—
Balance as at June 30, 2020	\$ 1,114	\$ 1,600	\$ 9,813	\$ 7,948	\$ 26,112	\$ 26,649	\$ 73,236
Net book value							
As at December 31, 2019	\$ 18,742	\$ 1,140	\$ 8,002	\$ 97	\$ 36,075	\$ 14,188	\$ 78,244
As at June 30, 2020	\$ 18,391	\$ 1,140	\$ 7,681	\$ 58	\$ 38,144	\$ 13,436	\$ 78,850

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	\$ 26,336	\$ 63,832
Remeasurement	\$ 1,413	\$ —	\$ —	1,413
Asset class transfer	\$ —	\$ —	\$ (6,290)	(6,290)
Additions	3,506	—	2,385	5,891
Disposals	(114)	—	(478)	(592)
Balance as at June 30, 2020	\$ 42,232	\$ 69	\$ 21,953	\$ 64,254
Accumulated Depreciation				
Balance as at December 31, 2019	\$ 13,192	\$ 31	\$ 14,534	\$ 27,757
Disposals	(72)	—	(369)	(441)
Depreciation	2,756	13	1,342	4,111
Asset class transfer	—	—	(5,317)	(5,317)
Balance as at June 30, 2020	\$ 15,876	\$ 44	\$ 10,190	\$ 26,110
Net book value				
As at December 31, 2019	\$ 24,235	\$ 38	\$ 11,802	\$ 36,075
As at June 30, 2020	\$ 26,356	\$ 25	\$ 11,763	\$ 38,144

On May 1, 2020, the Company exercised an option to extend the term of a building lease for an additional 18 months to April 30, 2025 (original termination date of October 31, 2023). In addition, there was a reduction in rental payments provided to the Company for 4 months of the existing lease term (May - August 2020). Both amendments to the original lease agreement represent a lease modification in accordance with IFRS 16, and therefore the lease liability and right-of-use asset were remeasured at May 1, 2020. This remeasurement resulted in an increase to the lease liability and related right-of-use asset of \$1,413. The lease extension will impact future cash flows for the extension period, with fixed payments of \$112 per month, and cash flow requirements will be reduced from May-August 2020 by \$54 per month..

4. Goodwill and intangible assets

	Goodwill	Intangible Total	Total
Cost			
Balance as at December 31, 2019	\$ 100,681	\$ 107,360	\$ 208,041
Additions	—	328	328
Balance as at June 30, 2020	\$ 100,681	\$ 107,688	\$ 208,369
Amortization and impairments			
Balance as at December 31, 2019	\$ (87,732)	\$ (99,977)	\$ (187,710)
Amortization	—	(833)	(833)
Impairment	(5,000)	—	(5,000)
Balance as at June 30, 2020	\$ (92,732)	\$ (100,810)	\$ (193,543)
Net book value			
As at December 31, 2019	\$ 12,949	\$ 7,383	\$ 20,332
As at June 30, 2020	\$ 7,949	\$ 6,878	\$ 14,826

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 in the six months ended June 30, 2020.

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 its CGUs for indicators of impairment at June 30, 2020 and none were identified; therefore, 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. The

deferred consideration as at June 30, 2020 of \$771 reflects the increase from acquisition date as a results of the passage of time less the first installment payment of \$433.

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 represented the fair value of the expected amount estimated by management at the acquisition date to be paid to the sellers on June 28, 2022. 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 \$503 (undiscounted - \$790) at June 30, 2020.

7. ABL Facility and Other Borrowings

a. ABL Facility

The Company established an asset-based lending facility (the "ABL Facility") pursuant to the terms of the Third Amended and Restated Credit Agreement, which is comprised of (i) a revolving credit facility providing for maximum borrowings that range from \$50,000 to \$65,000 depending on the period (currently \$65,000) (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 May 29, 2020, the Lenders and Canso have agreed to amend the ABL Facility to, among other things: (a) provide the option to defer interest owing on amounts drawn on the Revolving Facility at the end of May, June and July 2020 (with any such deferred amounts to be paid on August 31, 2020); (b) defer interest payments on amounts drawn on the Term Loan Facility from May 29, 2020 to March 31, 2021 (with such deferred amounts to be paid on March 31, 2021); (c) waive compliance with the fixed charge coverage ratio covenant for the fiscal quarter ending June 30, 2020; (d) defer the payment of certain fees (with any such deferred amounts to be paid on August 31, 2020); and (e) permit the Payment in Kind Transactions (as defined under Senior Secured Debentures below). Assuming that the amount drawn on the Term Loan Facility remains constant at \$40,500 and based on the current interest rate, the deferred interest payments on the Term Loan Facility from May 29, 2020 to March 31, 2021 will total approximately \$3,000. As of June 30, 2020, interest on the Term Loan Facility of \$235 was deferred and accrued for in the ABL Facility payable balance.

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

The amount available under the Revolving Facility will vary from time to time based on the borrowing base determined with reference to the accounts receivable of the Company. The Revolving Facility borrowing base as at June 30, 2020 was \$32,072 (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 June 30, 2020, \$nil (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 June 30, 2020, the net unamortized amount of deferred financing costs was \$522 (December 31, 2019 - \$883).

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

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

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

At June 30, 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. 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. 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 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.

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.

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

At June 30, 2020, ClearStream was in compliance with all financial covenants under the BDC agreement.

c. Senior Secured Debentures

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

have approximately \$107,000 principal amount of Senior Secured Debentures outstanding at December 31, 2020.

8. Revenue

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Rendering of services	\$ 73,660	\$ 85,690	\$ 188,692	\$ 150,958
Sales of goods	7,377	18,000	19,144	36,686
Total revenue	\$ 81,037	\$ 103,690	\$ 207,836	\$ 187,644

9. Selling, general & administrative expenses

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Salaries & benefits	\$ 2,948	\$ 4,377	\$ 7,777	\$ 7,586
Occupancy and office costs	451	225	925	888
Professional fees	692	1,275	1,405	2,009
Travel	172	314	496	584
Insurance	454	178	830	704
Total	\$ 4,717	\$ 6,369	\$ 11,433	\$ 11,771

10. Income from government subsidies

The Canada Emergency Wage Subsidy ("CEWS") represents assistance received from the Government of Canada to assist with the payment of employee wages as a result of the impact of the COVID-19 pandemic during the three and six months ended June 30, 2020. The company qualified for CEWS and recorded grants of \$8,576 in the Unaudited Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss). As at June 30, 2020, included in accounts receivable was \$4,386 of accrued income from government subsidies related to the CEWS.

11. 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 June 30, 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 June 30, 2020, the accrued and unpaid dividends on the Series 1 and Series 2 preferred shares totaled \$34,663. 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 127,900,000 common shares would be issued, which represents approximately 116% of the common shares outstanding as of June 30, 2020.

The only potentially dilutive securities as at June 30, 2020 were the preferred shares, and stock options. All potentially dilutive securities were anti-dilutive for the three and six months ended June 30, 2020.

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 June 30, 2020	127,735	40,111	109,992,668

12. 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.

13. Financial instruments and risk management

Financial instruments consist of 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:

	June 30, 2020	December 31, 2019
Cash	\$ 24,436	\$ 7,109
Restricted cash	—	805
Accounts receivable	80,337	138,638
Total	\$ 104,773	\$ 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 June 30, 2020, \$54,097 (December 31, 2019 - \$99,305) related to trade receivables and \$26,240 (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 June 30, 2020, approximately \$4,005 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 June 30, 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 repayable in monthly installment payments through December 2025 and September 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 provided from operations has been driven by a significant release of working capital as revenues for the three months ended June 30, 2020 declined significantly from the three months ended December 31, 2019 and the three months ended March 31, 2020. This was further impacted by internal billing efficiencies realized in 2020 and the receipt of the Canada Emergency Wage subsidy.

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

To maintain additional financial flexibility, we have established agreements with our lenders to defer interest and principal payments, waive compliance with financial covenants and defer other payments and fees as described in Note 7.

Based on current forecast, which assumes the continued receipt of funding available to ClearStream through the Canada Emergency Wage Subsidy program and the extension of the asset-based lending

facility past March 2021 on same or similar terms, the Company anticipates having sufficient cash flow from operations and available credit facilities to meet its short-term contractual obligations and to maintain compliance with its financial covenants through June 30, 2021.

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

14. 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 June 30, 2020	Maintenance and Construction Services	Wear Technology Overlay services	Corporate	Eliminations	Total
Revenues	\$ 74,142	\$ 7,377	\$ —	\$ (482)	\$ 81,037
Cost of revenues	(68,832)	(6,657)	—	482	(75,007)
Gross profit	5,310	720	—	—	6,030
Selling, general & administrative	(166)	(127)	(4,424)	—	(4,717)
Amortization of intangible assets	(65)	(417)	—	—	(482)
Depreciation expense	(2,148)	(892)	(626)	—	(3,666)
Income from equity investment	140	—	—	—	140
Interest expense	(304)	(214)	(4,028)	—	(4,546)
Restructuring (expense) recovery	(24)	132	(92)	—	16
Gain (loss) on sale of property, plant and equipment	18	—	(131)	—	(113)
Canada Emergency Wage Subsidy	7,175	812	589	—	8,576
Income (loss) before taxes	9,936	14	(8,712)	—	1,238
Income tax recovery - current	—	—	65	—	65
Income (loss) from continuing operations	\$ 9,936	\$ 14	\$ (8,647)	\$ —	\$ 1,303

For the three months ended June 30, 2019	Maintenance and Construction Services	Wear Technology Overlay services	Corporate	Eliminations	Total
Revenues	\$ 88,335	\$ 16,921	\$ —	\$ (1,566)	\$ 103,690
Cost of revenues	(81,011)	(13,035)	—	1,566	(92,480)
Gross profit	7,325	3,886	—	—	11,210
Selling, general and administrative expenses	(276)	(119)	(5,974)	—	(6,369)
Amortization of intangible assets	(182)	(43)	—	—	(224)
Depreciation	(1,039)	(1,047)	(1,003)	—	(3,088)
Interest expense	(301)	(135)	(3,693)	—	(4,130)
Restructuring expense	(361)	(962)	(3,060)	—	(4,382)
Impairment of right-of-use assets	—	(376)	(1,666)	—	(2,042)
Bargain purchase gain	—	—	12,272	—	12,272
Gain on remeasurement of right-of-use assets	—	—	127	—	127
Gain on sale property, plant and equipment	55	—	—	—	55
Income (loss) before taxes	5,222	1,205	(2,998)	—	3,429
Income tax recovery - deferred	—	—	3,663	—	3,663
Income (loss) from continuing operations	\$ 5,222	\$ 1,205	\$ 667	\$ —	\$ 7,092

For the six months ended June 30, 2020	Maintenance and Construction Services	Wear Technology Overlay services	Corporate	Eliminations	Total
Revenues	\$ 189,487	\$ 19,144	\$ —	\$ (795)	\$ 207,836
Cost of revenues	(177,427)	(15,854)	—	795	(192,486)
Gross profit	12,060	3,290	—	—	15,350
Selling, general & administrative	(401)	(278)	(10,754)	—	(11,433)
Share-based compensation and other long-term incentive plans	—	—	1,109	—	1,109
Amortization of intangible assets	(104)	(729)	—	—	(833)
Depreciation expense	(4,278)	(1,690)	(1,010)	—	(6,978)
Income from equity investment	189	—	—	—	189
Interest expense	(619)	(135)	(7,889)	—	(8,643)
Restructuring (expense) recovery	(41)	117	(473)	—	(397)
Impairment of intangible assets and goodwill	—	(5,000)	—	—	(5,000)
Gain (loss) on sale of property, plant and equipment	158	—	(131)	—	27
Canada Emergency Wage Subsidy	7,175	812	589	—	8,576
Income (loss) before taxes	14,139	(3,613)	(18,559)	—	(8,033)
Income tax recovery - current	—	—	65	—	65
Income (loss) from continuing operations	\$ 14,139	\$ (3,613)	\$ (18,494)	\$ —	\$ (7,968)

For the six months ended June 30, 2019	Maintenance and Construction Services	Wear Technology Overlay services	Corporate	Eliminations	Total
Revenues	\$ 156,226	\$ 33,449	\$ —	\$ (2,031)	\$ 187,644
Cost of revenues	(143,749)	(25,746)	—	2,031	(167,464)
Gross profit	12,478	7,702	—	—	20,180
Selling, general and administrative expenses	(617)	(296)	(10,858)	—	(11,771)
Share-based compensation and other long-term incentive plans	—	—	(64)	—	(64)
Amortization of intangible assets	(451)	(106)	—	—	(556)
Depreciation	(2,389)	(1,877)	(1,887)	—	(6,152)
Income from equity investment	25	—	—	—	25
Interest expense	(633)	(289)	(7,553)	—	(8,474)
Restructuring expense	(369)	(962)	(3,113)	—	(4,443)
Impairment of right-of-use assets	—	(376)	(1,666)	—	(2,042)
Bargain purchase gain	—	—	12,272	—	12,272
Gain on remeasurement of right-of-use assets	—	—	127	—	127
Gain on sale property, plant and equipment	107	—	—	—	107
Income (loss) income before taxes	8,152	3,797	(12,741)	—	(792)
Income tax recovery - deferred	—	—	3,663	—	3,663
Income (loss) from continuing operations	\$ 8,152	\$ 3,797	\$ (9,078)	\$ —	\$ 2,871



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