ClearStream Announces Second Quarter 2022 Financial Results

Completes 20 Turnaround Projects and reports quarterly revenues of $173 million

Calgary, Alberta (July 28, 2022) – ClearStream Energy Services Inc. (“ClearStream” or the "Company") (TSX: CSM) today announced its results for the six months ended June 30, 2022. All amounts are in Canadian dollars and expressed in thousands of dollars unless otherwise noted.

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

“Activity levels in the second quarter reached record levels as we successfully completed 20 turnaround projects to build and maintain the integrity of our customers’ infrastructure. We onboarded over 2,000 employees to support these projects. We are proud of our employees who delivered these services in a safe and timely manner,” said Barry Card, Chief Executive Officer.

“Revenues in the second quarter grew to $173 million, representing an increase of 79% from the second quarter of 2021. We have been working closely with our customers, suppliers and stakeholders to proactively manage inflationary cost pressures and material shortages in the first half of the year. This will continue to be a key focus in the second half of the year,” added Mr. Card.

HIGHLIGHTS

- Revenues for the three months ended June 30, 2022 were $173.2 million, representing an increase of $76.6 million or 79.3% from Q2 2021 and an increase of $63.3 million or 57.7% from Q1 2022.
- Gross profit for the three months ended June 30, 2022 was $15.7 million, representing an increase of $5.3 million or 50.4% from Q2 2021 and an increase of $6.0 million or 61.2% from Q1 2022.
- Gross profit margin for the three months ended June 30, 2022 was 9.1%, as compared to 10.8% in Q2 2021 and 8.9% in Q1 2022.
- Adjusted EBITDAS for the three months ended June 30, 2022 were $7.9 million, representing an increase of $3.5 million or 77.8% from Q2 2021 and an increase of $4.9 million or 163.1% from Q1 2022.
- Adjusted EBITDAS margin for the three months ended June 30, 2022 was 4.6%, same as Q2 2021 and an increase of 1.8% from Q1 2022.
- Selling, general and administrative expenses for three months ended June 30, 2022 were $9.8 million, representing an increase of $3.2 million or 48.8% from Q2 2021 and an increase of $1.7 million or 21.7% from Q1 2022. The increase is largely due to our business recovering and stabilizing in 2022, therefore, certain elements of cost reductions in previous years have been reversed in order to support the increased volume of work in 2022. In addition, 2022 expenses are higher than 2021 due to ongoing investments being made to support the Company's enterprise systems and digital strategy to drive longer-term efficiencies and increase our cost competitiveness.
- Liquidity, including cash and available credit facilities, was $13.8 million at June 30, 2022, as compared to $33.7 million at December 31, 2021.
- New project awards and contract renewals were $110 million for the three months ended June 30, 2022 and $17 million for the month of July 2022. A majority of that work is expected to be completed in the next 12 months.

Maintenance and Construction Services

Revenues for the three months ended June 30, 2022 were $160.3 million, representing an increase of $73.0 million or 83.7% from Q2 2021 and $60.8 million or 61.2% from Q1 2022. The increase was due to the completion of a record 20 turnaround projects in the second quarter. We continue to focus on consolidating various scopes of work with existing or new customers by bundling our services in order to enable more efficient execution and lower costs for our customers on each work site.

Wear Technology Overlay Services

Revenues for the three months ended June 30, 2022 were $14.3 million, representing an increase of $4.5 million or 46.0% from Q2 2021 and an increase of $1.9 million or 15.7% from Q1 2022. Gross profit margin was lower due to the mix of business and inflationary cost pressures from work that was bid in 2021 and executed in 2022. With the continued rise in global energy demand and commodity prices, we are seeing our customers in the oil sands operating at full production levels, which has started to increase the demand for our AssetArmor™ products.

Environmental Services

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

SECOND QUARTER 2022 FINANCIAL RESULTS

($ millions, except per share amounts)	Three months ended June 30,			Six months ended June 30,		
	2022	2021	% Change	2022	2021	% Change
Revenue						
Maintenance and Construction Services	160.3	87.3	83.7 %	259.7	161.3	61.0 %
Wear Technology Overlay Services	14.3	9.8	46.0 %	26.6	18.3	45.1 %
Eliminations(1)	(1.3)	(0.4)	206.2 %	(3.3)	(0.8)	291.8 %
Total	173.2	96.6	79.3 %	283.0	178.8	58.3 %
Gross Profit						
Maintenance and Construction Services	13.6	7.6	79.7 %	21.0	13.5	55.7 %
Wear Technology Overlay Services	2.1	2.9	(27.4)%	4.5	5.0	(11.0)%
Total	15.7	10.4	50.4 %	25.4	18.5	37.6 %
Gross Profit Margin (% of revenue)						
Maintenance and Construction Services	8.5 %	8.7 %	(0.2)%	8.1 %	8.4 %	(0.3)%
Wear Technology Overlay Services	14.6 %	29.3 %	(14.7)%	16.8 %	27.3 %	(10.6)%
Total	9.1 %	10.8 %	(1.7)%	9.0 %	10.3 %	(1.4)%
Selling, general and administrative expenses	9.8	6.6	48.8 %	17.9	12.6	42.2 %
% of revenue	5.7 %	6.8 %	(1.2)%	6.3 %	7.0 %	— %
Adjusted EBITDAS(2)						
Maintenance and Construction Services	13.5	7.8	72.9 %	20.7	13.6	52.2 %
Wear Technology Overlay Services	2.0	2.8	(28.2)%	4.3	4.9	(11.5)%
Corporate	(7.6)	(6.1)	23.4 %	(14.1)	(11.8)	(19.5)%
Total	7.9	4.4	77.8 %	10.9	6.7	63.5 %
% of revenue	4.6 %	4.6 %	— %	3.9 %	3.7 %	0.1 %
(Loss) income from continuing operations	(1.0)	0.5	(297.2)%	(8.8)	(7.1)	23.8 %
Net (loss) income per share (dollars) from continuing operations (basic and diluted)	(0.01)	0.00	(297.2)%	(0.08)	(0.06)	— %

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

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

Revenues for the three and six months ended June 30, 2022 were $173,195 and $283,043 compared to $96,596 and $178,800 for the same periods in 2021, representing an increase of 79.3% and increase 58.3%. The increase in revenue was driven by the strong market momentum in the first half of 2022, with an increase in activity across all areas of the business.

Gross profit for the three and six months ended June 30, 2022 was $15,701 and $25,441 compared to $10,440 and $18,485 for the same periods of 2021, representing an increase of 50.4% and 37.6%. Gross profit margin for the three and six months ended June 30, 2022 were 9.1% and 9.0% compared to 10.8% and 10.3% for the same periods in 2021. Consistent with Q1 2022, the decrease in gross profit margin was driven by a change in the mix of services and products provided with lower gross profit margins.

Selling, general and administrative ("SG&A") expenses for the three and six months ended June 30, 2022 were $9,799 and $17,851, in comparison to $6,586 and $12,554 for the same periods in 2021, representing an increase of 48.8% and 42.2%. As a percentage of revenue, SG&A expenses for the three and six months ended June 30, 2022 were 5.7% and 6.3% compared to 6.8% and 7.0% for the same periods in 2021. Consistent with the last three quarters of 2021, the increase in SG&A expenses is partially due to the ongoing investments being made to support the Company's enterprise systems and digital strategy. These investments, which will extend throughout 2022, are expected to drive longer-term efficiencies and increase our cost competitiveness. In addition, certain elements of cost reductions in previous years have been reversed in order to support the increased volume of work in 2022.

For the three and six months ended June 30, 2022, Adjusted EBITDAS was $7,908 and $10,914 compared to $4,448 and $6,677 for the same periods in 2021. As a percentage of revenue, Adjusted EBITDAS was 4.6% and 3.9% for the three and six months ended June 30, 2022 compared to 4.6% and 3.7% for the same periods in 2021.

Income from government subsidies includes the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") received from the Government of Canada to assist with the payment of employee wages and rent as a result of the impact of the COVID-19 pandemic. The CEWS and CERS programs ended in 2021. Therefore, the Company did not have any income from government subsidies during the three and six months ended June 30, 2022, compared to $4,415 and $11,170 for the three and six months ended June 30, 2021.

Loss from continuing operations for the three and six months ended June 30, 2022 was $974 and $8,757 compared to income of $494 and a loss of $7,076 for the same periods in 2021. The loss variance was driven by the reduction in government subsidies in 2022, an increase in SG&A expenses and an increase in restructuring expenses, partially offset by an increase in gross profit and the impairment of right-of-use assets recognized in 2021.

LIQUIDITY AND CAPITAL RESOURCES

On April 14, 2022, ClearStream established a new $25 million asset-based revolving credit facility with a three-year term with a Canadian chartered bank (the “ABL Facility”) to replace its existing $15 million asset-based revolving credit facility that matured on April 14, 2022. Pursuant to an amending agreement dated June 23, 2022, the ABL Facility was amended to increase the maximum borrowings available thereunder to $30 million during the period commencing on June 23, 2022 and ending on November 30, 2022 to provide additional working capital needed to finance the higher level of activity experienced in the second quarter.

On June 30, 2022, ClearStream paid the interest owing on its 8% senior secured debentures due March 23, 2026 (the “Senior Secured Debentures”) by issuing an additional 4,449 Senior Secured Debentures at a principal amount of $1,000 per Senior Secured Debenture. Following this issuance, the principal amount of Senior Secured Debentures outstanding as at June 30, 2022 was $115.7 million.

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

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

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

The Series 1 and Series 2 preferred shares have a 10% fixed cumulative preferential cash dividend payable when the Company has sufficient monies to be able to do so, including under the provisions of applicable law and contracts affecting the Company. The board of directors of the Company does not intend to declare or pay any cash dividends until such times as the Company's balance sheet and liquidity position supports the payment. As at June 30, 2022, the accrued and unpaid dividends on the Series 1 and Series 2 shares totaled $68.21 million. Any accrued and unpaid dividends are convertible in certain circumstances at the option of the holder into additional Series 1 and Series 2 preferred shares.

OUTLOOK

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

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

The growth in our served markets continues to drive some near-term challenges, including inflationary pressure on labour, equipment and materials as well as supply chain disruptions. We are working closely with our customers and suppliers to manage these challenges. We are also enhancing our programs to attract, retain and develop our number one resource, our employees, as we strive to become the “employer of choice”.

Additional Information

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

About ClearStream Energy Services Inc.

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

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Advisory regarding Forward-Looking Information

Certain information included in this Press Release may constitute “forward-looking information” within the meaning of Canadian securities laws. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue” or the negative of these terms or other similar expressions concerning matters that are not historical facts. This press release contains forward-looking information relating to: our business plans, strategies and objectives; that management of inflationary cost pressures and material shortages will be a key focus in the second half of the year; contract renewals and project awards, including the estimated value thereof and the timing of completing the associated work; that the demand for our AssetArmor™ products will increase as customers increase production levels; that customers will continue to allocate expenditures for the closure, reclamation and remediation of oil and gas wells, pipelines and facilities in Western Canada; that the investments being made to support our enterprise systems and digital strategy will drive longer-term efficiencies and increase our cost competitiveness; the sufficiency of our liquidity and cash flow from operations to meet our short-term contractual obligations and maintain compliance with our financial covenants through June 30, 2023; our dividend policy; the pricing outlook for commodities in the end markets we serve; that our customers will increase spending on both maintenance and capital projects; and activity levels for the second half of 2022.

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

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

Advisory regarding Non-Standard Measures

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

EBITDAS refers to net earnings determined in accordance with IFRS, before depreciation and amortization, interest expense, income tax expense (recovery) and long-term incentive plan expenses. EBITDAS is used by management and the directors of ClearStream as well as many investors to determine the ability of an issuer to generate cash from operations. Management also uses EBITDAS to monitor the performance of ClearStream's reportable segments and believes that in addition to net income or loss and cash provided by operating activities, EBITDAS is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures and income taxes. ClearStream has provided a reconciliation of income (loss) from continuing operations to EBITDAS in its management's discussion and analysis of the operating and financial results for the three and six months ended June 30, 2022.

Adjusted EBITDAS refers to EBITDAS excluding impairment of goodwill and intangible assets, restructuring expense, gain (loss) on sale of property, plant and equipment, loss of contingent consideration liability, one time incurred expenses, impairment of right-of-use assets and government subsidies. ClearStream has used Adjusted EBITDAS as the basis for the analysis of its past operating financial performance. Adjusted EBITDAS is a measure that management believes (i) is a useful supplemental measure from which to determine ClearStream's ability to generate cash available for debt service, working capital, capital expenditures, and income taxes, and (ii) facilitates the comparability of the results of historical periods and the analysis of its operating financial performance which may be useful to investors. ClearStream has provided a reconciliation of income (loss) from continuing operations to Adjusted EBITDAS in its management's discussion and analysis of the operating and financial results for the three and six months ended June 30, 2022.

Investors are cautioned that the Non-Standard Measures are not alternatives to measures under IFRS and should not, on their own, be construed as an indicator of performance or cash flows, a measure of liquidity or as a measure of actual return on the shares. These Non-Standard Measures should only be used with reference to ClearStream's consolidated interim and annual financial statements available on SEDAR at www.sedar.com or on ClearStream's website at www.clearstreamenergy.ca.