



Calfrac Announces Second Quarter Results

July 29, 2021 4:00 PM EDT

CALGARY, AB, July 29, 2021 /CNW/ - **Calfrac Well Services Ltd. ("Calfrac" or "the Company")** (TSX: CFW) announces its financial and operating results for the three and six months ended June 30, 2021.

HIGHLIGHTS

	Three Months Ended June 30, 2021			Six Months Ended June 30, 2021		
	2021	2020	Change	2021	2020	Change
<i>(C\$000s, except per share and unit data)</i>	(\$)	(\$)	(%)	(\$)	(\$)	(%)
<i>(unaudited)</i>						
Revenue	207,311	91,423	127	448,886	396,938	13
Operating income (loss) ⁽¹⁾	6,043	(7,307)	NM	18,983	(1,609)	NM
Per share – basic ⁽²⁾	0.16	(2.52)	NM	0.51	(0.55)	NM
Per share – diluted ⁽²⁾	0.07	(2.52)	NM	0.23	(0.55)	NM
Adjusted EBITDA ⁽¹⁾	4,393	(5,185)	NM	16,329	1,627	NM
Per share – basic ⁽²⁾	0.12	(1.79)	NM	0.44	0.56	(21)
Per share – diluted ⁽²⁾	0.05	(1.79)	NM	0.20	0.56	(64)
Net loss	(30,535)	(277,275)	NM	(52,953)	(400,132)	(87)
Per share – basic ⁽²⁾	(0.82)	(95.61)	NM	(1.41)	(138.00)	(99)
Per share – diluted ⁽²⁾	(0.82)	(95.61)	NM	(1.41)	(138.00)	(99)
Working capital (end of period)				152,176	157,165	(3)
Total equity (end of period)				350,631	(34,195)	NM
Weighted average common shares outstanding (000s)						
Basic ⁽²⁾	37,434	2,900	NM	37,428	2,899	NM
Diluted ⁽²⁾	83,422	2,912	NM	83,625	2,912	NM

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation that occurred on December 18, 2020.

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented: "Calfrac's second-quarter results were behind our expectations due, in large part, to reactivation costs and significant schedule disruptions in the United States during June. As anticipated, operations in North America built momentum towards a strong second half of the year, while international operations delivered improved results that were in line with our expectations". During the quarter, Calfrac:

- reactivated two crews and moved one crew in the United States, spending approximately \$4.0 million to do so;
- and
- completed the renewal and extension of its revolving credit facility with a syndicate of Canadian banks.

CONSOLIDATED HIGHLIGHTS

Three Months Ended June 30,	2021	2020	Change
<i>(C\$000s, except operational information)</i>	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Revenue	207,311	91,423	127

Expenses			
Operating	191,219	87,520	118
Selling, general and administrative (SG&A)	10,048	11,210	(10)
	201,267	98,730	104
Operating income (loss) ⁽¹⁾	6,044	(7,307)	NM
Operating income (loss) (%)	2.9	(8.0)	NM
Adjusted EBITDA ⁽¹⁾	4,393	(5,185)	NM
Adjusted EBITDA (%)	2.1	(5.7)	NM
Fracturing revenue per job (\$)	32,704	36,406	(10)
Number of fracturing jobs	5,675	2,377	139
Active pumping horsepower, end of period (000s)	950	780	22
Idle pumping horsepower, end of period (000s)	393	572	(31)
Total pumping horsepower, end of period (000s)	1,343	1,352	(1)
Coiled tubing revenue per job (\$)	22,616	21,773	4
Number of coiled tubing jobs	563	209	169
Active coiled tubing units, end of period (#)	16	16	—
Idle coiled tubing units, end of period (#)	11	11	—
Total coiled tubing units, end of period (#)	27	27	—
Cementing revenue per job (\$)	48,095	36,608	31
Number of cementing jobs	116	7	NM
Active cementing units, end of period (#)	10	13	(23)
Idle cementing units, end of period (#)	6	3	100
Total cementing units, end of period (#)	16	16	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

Revenue in the second quarter of 2021 was \$207.3 million, an increase of 127 percent from the same period in 2020. The improved revenue was mainly due to the fracturing job count increasing by 139 percent, resulting primarily from higher activity in all operating divisions. Cementing and coiled tubing activity in Argentina returned to more normal levels after the mandated shut-down in the comparable quarter, while consolidated coiled tubing activity increased by 169 percent. Fracturing revenue per job decreased by 10 percent due to changes in job mix in Russia and the United States.

Calfrac reported Adjusted EBITDA of \$4.4 million for the second quarter of 2021, an increase from negative \$5.2 million in the comparable period in 2020, primarily as a result of better utilization for its operating fleets in Canada, Argentina and Russia, combined with cost reduction measures implemented across the Company during 2020.

The net loss was \$30.5 million or \$0.82 per share diluted compared to a net loss of \$277.3 million or \$95.61 per share diluted in the same period last year, which included an impairment of PP&E and other assets of \$201.6 million.

Three Months Ended	June 30, March 31, Change		
	2021	2021	
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	207,311	241,575	(14)
Expenses			
Operating	191,219	217,447	(12)
SG&A	10,048	11,188	(10)
	201,267	228,635	(12)
Operating income ⁽¹⁾	6,044	12,940	(53)
Operating income (%)	2.9	5.4	(46)
Adjusted EBITDA ⁽¹⁾	4,393	11,936	(63)
Adjusted EBITDA (%)	2.1	4.9	(57)
Fracturing revenue per job (\$)	32,704	24,549	33
Number of fracturing jobs	5,675	8,852	(36)
Active pumping horsepower, end of period (000s)	950	934	2
Idle pumping horsepower, end of period (000s)	393	411	(4)
Total pumping horsepower, end of period (000s)	1,343	1,345	—
Coiled tubing revenue per job (\$)	22,616	23,471	(4)
Number of coiled tubing jobs	563	644	(13)
Active coiled tubing units, end of period (#)	16	16	—
Idle coiled tubing units, end of period (#)	11	11	—
Total coiled tubing units, end of period (#)	27	27	—
Cementing revenue per job (\$)	48,095	50,665	(5)
Number of cementing jobs	116	93	25
Active cementing units, end of period (#)	10	10	—
Idle cementing units, end of period (#)	6	6	—
Total cementing units, end of period (#)	16	16	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

Second-quarter revenue in 2021 of \$207.3 million represented a decrease of 14 percent from the first quarter of 2021, primarily due to lower fracturing activity in North America, offset partially by higher revenue in Russia. Revenue per fracturing job was 33 percent higher compared with the first quarter of 2021 due to the impact of job mix in Canada.

In Canada, revenue decreased by 41 percent from the first quarter to \$50.8 million in the second quarter due to the normal seasonal slowdown in activity due to spring break-up conditions. Calfrac also reduced its marketed asset base to three fracturing fleets from four fleets in the first quarter. Operating income as a percentage of revenue was 8 percent, compared to 18 percent in the first quarter.

In the United States, revenue in the second quarter of 2021 was \$86.7 million, a 7 percent decline from the first quarter of 2021. The second quarter was extremely volatile for Calfrac's operations in the United States, with a number of short notice schedule changes by key customers resulting in lower than expected utilization. Operating losses were \$2.6 million in the second quarter compared to a loss of \$3.0 million in the first quarter of 2021.

On a positive note, the Company accelerated the activation of two incremental spreads based on demand from core clients in North Dakota and the Rockies regions. These activations resulted in \$4.0 million of elevated operating expenses in the second quarter but are expected to generate positive incremental operating income in the third quarter.

In Russia, revenue of \$33.5 million in the second quarter of 2021 was 21 percent higher on a sequential basis due to a typical increase in activity as compared to the first quarter. The trend towards a greater number of multi-stage fracturing wells also contributed to the increase in revenue during the second quarter. Operating income increased by \$3.8 million due primarily to a combination of lower operating costs compared to winter operations in Western Siberia and a higher revenue base.

In Argentina, revenue in the second quarter of 2021 increased slightly to \$36.3 million from \$35.5 million in the first quarter. The ongoing improvement in operating conditions resulted in a sequential improvement in overall activity although revenue was negatively impacted by lower activity with a key customer in Neuquén due to wellbore issues. However, the lower activity was partially mitigated by a contractual arrangement that provided guaranteed minimum revenue for the quarter. Operating income increased from \$3.9 million in the first quarter of 2021 to \$4.9 million in the second quarter.

On a consolidated basis, Adjusted EBITDA of \$4.4 million for the second quarter of 2021 decreased from \$11.9 million in the first quarter of 2020, primarily due to the impact of reactivation costs combined with lower utilization in the United States resulting from a number of schedule gaps in June combined with the seasonal slow down in Canada.

BUSINESS UPDATE AND OUTLOOK

Activity improved in all operating regions from the second quarter of 2020, however, a number of unexpected changes to key customer work programs in the United States during June resulted in decreased profitability. In addition, the Company incurred incremental operating and capital expenses during the second quarter of 2021 to reactivate two fracturing fleets in the United States, which have been active early in the third quarter at accretive margins. Commodity prices have strengthened over the first half of the year and the resulting improvements in the cash flows of Calfrac's clients should drive higher demand for the Company's services during the remainder of the year and into 2022.

CANADA

In Canada, the second quarter followed typical patterns of activity with a steady increase in equipment utilization throughout the quarter. As previously disclosed, Calfrac reduced its marketed asset base to three fracturing fleets from four fleets in the first quarter. The Company plans to operate four fracturing fleets throughout the remainder of 2021 to service the completion programs of its major clients. Pricing in the spot market continues to be too low to support a fleet that would have the lower utilization inherent in that market segment, and as such, Calfrac will continue to service its core clients while remaining disciplined on reactivation of equipment in order to move spot market economics to a level that may justify further equipment additions. Calfrac could deploy as many as five large fracturing fleets in Canada, with relatively low incremental capital investment.

Drilling and completions activity in Canada appears to be accelerating into the second half of the year, and this increase is expected to tighten the fracturing market in the months ahead. In addition, a more significant increase in spending and activity is anticipated in 2022 as higher commodity prices have materially increased the forecasted cash flows for exploration and production companies operating in western Canada.

Activity throughout the third quarter is expected to approach the levels experienced in the first quarter, and this cadence is expected to be maintained into the fourth quarter.

UNITED STATES

The second quarter was extremely volatile for Calfrac's operations in the United States, with a number of short notice schedule changes by key customers resulting in lower than expected utilization during June. In addition, the Company accelerated the activation of two incremental fleets and redeployed a third fracturing crew, based on demand from core clients. These actions reduced operating results by over \$8.0 million and resulted in \$3.4 million of incremental capital spending. All nine fracturing fleets are currently active and are expected to make meaningful contributions to Calfrac's operating and financial performance during the second half of the year.

Recent improvements in commodity pricing have begun to positively impact the operating outlook in the United States. Calfrac expects high levels of utilization for its active asset base during the second half of 2021 as clients have modestly increased their planned capital programs to take advantage of compelling wellhead economics. While activity is expected to remain strong during the second half of the year, the Company has no plans to add any incremental fracturing fleets to its operating footprint. Visibility into 2022 is expected to improve during the fourth quarter, and initial discussions with clients are supportive of a strong activity levels in all operating areas.

RUSSIA

As expected, operating and financial results for Calfrac's Russian division improved sequentially in the second quarter and are reflective of elevated utilization levels for the Company's active equipment along with prudent cost management. The third quarter is typically the busiest quarter of the year in Russia and near-term visibility supports a continuation of that trend. Further growth in 2022 may be possible based on current bidding activity and longer-term plans announced by producers in the country.

ARGENTINA

In Argentina, results improved sequentially with more consistent activity in all operating regions, specifically in the Vaca Muerta shale play

Operating activity for the Company's operations in Argentina is expected to remain strong throughout the remainder of 2021, and it is anticipated that high levels of demand for Calfrac's services will continue generating strong financial performance into 2022.

CORPORATE

At a corporate level, Calfrac's focus will remain on allocating capital in a prudent fashion, with debt reduction remaining a high priority. Investments in reactivation or upgrades of existing fleets will only be considered when returns exceed internal benchmarks including macroeconomic, industry and operation-specific risk factors.

FINANCIAL OVERVIEW – THREE MONTHS ENDED JUNE 30, 2021 VERSUS 2020

CANADA

Three Months Ended June 30,	2021	2020	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)

<i>(unaudited)</i>			
Revenue	50,766	27,813	83
Expenses			
Operating	47,422	20,208	135
SG&A	(951)	1,277	(174)
	46,471	21,485	116
Operating income ⁽¹⁾	4,295	6,329	(32)
Operating income (%)	8.5	22.8	(63)
Fracturing revenue per job (\$)	28,191	26,289	7
Number of fracturing jobs	1,621	978	66
Active pumping horsepower, end of period (000s)	202	174	16
Idle pumping horsepower, end of period (000s)	70	105	(33)
Total pumping horsepower, end of period (000s)	272	279	(3)
Coiled tubing revenue per job (\$)	18,231	13,563	34
Number of coiled tubing jobs	278	155	79
Active coiled tubing units, end of period (#)	7	7	—
Idle coiled tubing units, end of period (#)	6	6	—
Total coiled tubing units, end of period (#)	13	13	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the second quarter of 2021 was \$50.8 million compared to \$27.8 million in the same period of 2020, primarily due to higher activity. The number of fracturing jobs increased by 66 percent from the comparable period in 2020 as a significantly improved commodity price environment resulted in an increase in drilling and completion activity in western Canada. Revenue per job increased by 7 percent mainly due to job mix as the majority of activity completed in the quarter was focused on larger pad style jobs which are more product intensive. The number of coiled tubing jobs increased by 79 percent from the second quarter in 2020 due to higher activity.

OPERATING INCOME

Operating income in Canada during the second quarter of 2021 was \$4.3 million compared to \$6.3 million in the same period of 2020. Despite an 83 percent increase in revenue, the Company's operating income as a percentage of revenue was 8 percent compared to 23 percent in the comparable quarter. The second quarter of 2021 included \$2.5 million of Canadian Emergency Wage Subsidy (CEWS) compared to \$3.9 million in the second quarter of 2020. SG&A expense for the second quarter included a recovery of a litigation settlement while operating expenses were higher due to an arbitral order, which together resulted in a net increase to operating income of \$0.7 million. Excluding these items, operating income on a normalized basis for the second quarter of 2021 would have been \$1.1 million versus \$2.4 million in the comparable period in 2020. The decrease in operating income as a percentage of revenue for the quarter was mainly due to higher product costs due to changes in job mix.

UNITED STATES

Three Months Ended June 30,	2021	2020	Change
<i>(C\$000s, except operational and exchange rate information)</i>	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Revenue	86,688	38,192	127
Expenses			
Operating	86,366	39,998	116
SG&A	2,876	3,145	(9)
	89,242	43,143	107
Operating loss ⁽¹⁾	(2,554)	(4,951)	48
Operating loss (%)	(2.9)	(13.0)	78
Fracturing revenue per job (\$)	27,737	32,630	(15)
Number of fracturing jobs	3,123	1,168	167
Active pumping horsepower, end of period (000s)	550	423	30
Idle pumping horsepower, end of period (000s)	323	450	(28)
Total pumping horsepower, end of period (000s)	873	873	—
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	1	1	—
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	3	2	50
Total cementing units, end of period (#)	3	2	50
US\$/C\$ average exchange rate ⁽²⁾	1.2282	1.3853	(11)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations increased to \$86.7 million during the second quarter of 2021 from \$38.2 million in the comparable quarter of 2020. The improved commodity price backdrop relative to the second quarter in 2020 allowed the Company to operate three more fleets in 2021 compared to the same quarter in 2020. The significant increase in revenue can be attributed to a combination of a 167 percent increase in the number of fracturing jobs completed offset partially by a 15 percent decrease in revenue per job period-over-period, primarily due to the decline in the U.S. dollar exchange rate and job mix. The most significant improvement in activity was seen in North Dakota as the Company did not operate any fleets in that area in the comparable quarter in 2020, and to a lesser extent, Colorado.

OPERATING LOSS

The Company's United States operations generated an operating loss of \$2.6 million during the second quarter of 2021 compared to a loss of \$5.0 million in the same period in 2020. The Company reconfigured its operating footprint during the second quarter, which resulted in the movement of equipment and lower utilization of its active fleets during the latter half of the quarter. The Company began the reactivation of two fleets during the second quarter that are expected to be highly utilized during the third quarter, although customer delays during June negatively impacted profitability during the second quarter. Operating expenses included reactivation and relocation costs of \$4.0 million, while the comparable quarter included \$1.8 million of restructuring charges. In addition, the Company recorded a loss allowance provision of \$0.2 million in the second quarter of 2021. Excluding these one-time costs, the division would have had operating income of \$1.6 million during the second quarter in 2021.

RUSSIA

Three Months Ended June 30,	2021	2020 Change	
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	33,542	23,937	40
Expenses			
Operating	27,466	20,468	34
SG&A	789	717	10
	28,255	21,185	33
Operating income ⁽¹⁾	5,287	2,752	92
Operating income (%)	15.8	11.5	37
Fracturing revenue per job (\$)	57,305	95,936	(40)
Number of fracturing jobs	536	226	137
Active pumping horsepower, end of period (000s)	77	65	18
Idle pumping horsepower, end of period (000s)	—	12	(100)
Total pumping horsepower, end of period (000s)	77	77	—
Coiled tubing revenue per job (\$)	35,785	44,225	(19)
Number of coiled tubing jobs	79	51	55
Active coiled tubing units, end of period (#)	4	3	33
Idle coiled tubing units, end of period (#)	3	4	(25)
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate ⁽²⁾	0.0166	0.0192	(14)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations increased by 40 percent during the second quarter of 2021 to \$33.5 million from \$23.9 million in the corresponding period of 2020. The increase in revenue was attributable to a 137 percent increase in fracturing activity due to better utilization as the Company increased its operating footprint from four fleets in 2020 to six fleets in 2021, combined with changes in job mix as a higher percentage of multi-stage work was completed resulting in a higher number of stages completed at a lower average job size. Revenue per fracturing job decreased by 40 percent primarily due to a 14 percent decline in the Russian rouble, combined with the impact of job mix. Coiled tubing activity increased by 55 percent as the Company operated one additional coiled tubing unit and had consistent utilization throughout the quarter. The lower revenue per coiled tubing job was primarily due to the decline in the Russian rouble.

OPERATING INCOME

The Company's Russian division generated operating income of \$5.3 million during the second quarter of 2021 versus \$2.8 million in the comparable quarter in 2020. The improved operating performance was primarily due to better utilization of the division's operating fleets. The operating results during the second quarter in 2020 included \$0.3 million of severance cost.

ARGENTINA

Three Months Ended June 30,	2021	2020 Change	
(C\$000s, except operational and exchange rate information) (unaudited)	(\$)	(\$)	(%)
Revenue	36,314	1,481	NM
Expenses			
Operating	29,612	6,392	363
SG&A	1,774	1,534	16
	31,386	7,926	296
Operating income (loss) ⁽¹⁾	4,928	(6,445)	NM
Operating income (loss) (%)	13.6	(435.2)	NM
Fracturing revenue per job (\$)	57,105	206,427	(72)
Number of fracturing jobs	395	5	NM
Active pumping horsepower, end of period (000s)	121	118	3
Idle pumping horsepower, end of period (000s)	—	5	—
Total pumping horsepower, end of period (000s)	121	123	(2)
Coiled tubing revenue per job (\$)	23,483	64,274	(63)
Number of coiled tubing jobs	206	3	NM
Active coiled tubing units, end of period (#)	5	6	(17)
Idle coiled tubing units, end of period (#)	1	—	NM
Total coiled tubing units, end of period (#)	6	6	—
Cementing revenue per job (\$)	48,095	36,608	31
Number of cementing jobs	116	7	NM
Active cementing units, end of period (#)	10	13	(23)
Idle cementing units, end of period (#)	3	1	200
Total cementing units, end of period (#)	13	14	(7)

US\$/C\$ average exchange rate⁽²⁾

1.2282 1.3853 (11)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated revenue of \$36.3 million during the second quarter of 2021 compared to \$1.5 million in the comparable quarter in 2020. The second quarter in 2020 was a low point for the Argentina division as a result of the government mandated shutdown of oilfield activity due to the COVID-19 pandemic. The second quarter of 2021 saw a return to normal operations with strong shale activity in the Vaca Muerta as well as conventional activity in the South. Revenue was negatively impacted by delays in operations in Neuquén due to roadblocks in April as union strikes caused the shutdown of oilfield activity for 18 days and a lower number of stages completed with a customer due to wellbore issues. The lower activity was mitigated by a contractual arrangement that provided a minimum revenue guarantee during the quarter. Revenue per job for fracturing and coiled tubing was negatively impacted by the depreciation of the U.S. dollar. Despite the decline of the U.S dollar, cementing revenue per job increased by 31 percent due to changes in job mix as a greater amount of higher margin pre-fracturing work was completed in the second quarter of 2021.

OPERATING INCOME (LOSS)

The Company's operations in Argentina generated an operating income of \$4.9 million during the second quarter of 2021 compared to an operating loss of \$6.4 million in the comparable quarter of 2020. Although the second quarter utilization was impacted by the roadblocks and wellbore delay issues with a customer, it was offset by the minimum guaranteed revenue mentioned above. Overall utilization improved significantly compared to the same period in 2020 as the prior year included a government mandated shutdown of oilfield activity in response to the COVID-19 pandemic. The operating results during the second quarter in 2021 included \$0.2 million of severance costs.

CORPORATE

Three Months Ended June 30,	2021	2020	Change
(C\$000s)	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Expenses			
Operating	353	454	(22)
SG&A	5,560	4,537	23
	5,913	4,991	18
Operating loss ⁽¹⁾	(5,913)	(4,991)	18
% of Revenue	2.9	5.5	(47)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

OPERATING LOSS

Corporate expenses for the second quarter of 2021 were \$5.9 million compared to \$5.0 million in the second quarter of 2020. The increase was due in part to the issuance of new equity-based awards under its omnibus incentive plan, which resulted in a stock-based compensation expense of \$0.3 million in the second quarter in 2021 compared to a recovery of \$0.2 million in the same period in 2020. The Company also incurred higher professional fees related to the ongoing court and regulatory proceedings associated with the Recapitalization Transaction that was completed in 2020, as discussed in Note 2 of the interim financial statements.

DEPRECIATION

For the three months ended June 30, 2021, depreciation expense decreased by \$14.8 million to \$31.4 million from \$46.2 million in the corresponding quarter in 2020. In 2020, the Company recorded PP&E impairment charges totaling \$227.2 million which resulted in the reduction of depreciation expense during the second quarter in 2021. The year-over-year decrease in capital expenditures relating to major component purchases, which have a shorter useful life and a corresponding higher rate of depreciation, also contributed to the decrease in second-quarter depreciation expense.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange loss of \$2.3 million during the second quarter of 2021 versus a loss of \$2.0 million in the comparative three-month period of 2020. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The foreign exchange loss during the second quarter was mainly due to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period, combined with the revaluation of net monetary assets that were held in U.S. dollars as the Canadian dollar strengthened relative to the U.S. dollar.

INTEREST

The Company's net interest expense of \$9.3 million for the second quarter of 2021 was \$11.4 million lower than the comparable period in 2020. The decrease in interest expense was primarily due to the significant reduction in long-term debt resulting from the Recapitalization Transaction that closed on December 18, 2020. In addition, the USD/CAD exchange rate was 11 percent lower than the comparable quarter in 2020, which resulted in a reduction of reported interest expense on the Company's Second Lien Notes.

INCOME TAXES

The Company recorded an income tax recovery of \$7.2 million during the second quarter of 2021 compared to a recovery of \$0.4 million in the comparable period of 2020. A deferred tax recovery of \$8.0 million was recorded primarily due to losses incurred in the United States, and a current income tax expense of \$0.8 million resulted from current tax obligations in Russia.

IMPAIRMENT

Since the impairment test that was conducted as at December 31, 2020, the Company did not identify any changes in the indicators of impairment or any new indicators of impairment. The impairment charge by CGU is shown in the table below.

Three Months Ended June 30, 2021 2020

(C\$000s)		
	(\$)	(\$)
Canada	—	78,136
Argentina	—	68,669
Russia	—	26,879
		<u>—173,684</u>

LIQUIDITY AND CAPITAL RESOURCES

(C\$000s)	Three Months Ended Jun. 30, Six Months Ended Jun. 30,			
	2021	2020	2021	2020
(unaudited)	(\$)	(\$)	(\$)	(\$)
Cash provided by (used in):				
Operating activities	18,828	116,908	(1,034)	70,569
Financing activities	1,704	(13,299)	17,685	6,033
Investing activities	(13,545)	(9,720)	(24,051)	(35,576)
Effect of exchange rate changes on cash and cash equivalents	(287)	(2,972)	(1,765)	4,332
Increase (decrease) in cash and cash equivalents	<u>6,700</u>	<u>90,917</u>	<u>(9,165)</u>	<u>45,358</u>

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the three months ended June 30, 2021 was \$18.8 million versus cash provided of \$116.9 million during the same period in 2020. The decrease in cash provided by operations was primarily due to \$15.8 million provided by working capital during the second quarter compared to working capital providing \$127.1 million of cash in the same period in 2020. At June 30, 2021, Calfrac's working capital was \$152.2 million, compared to \$161.4 million at December 31, 2020.

FINANCING ACTIVITIES

Net cash provided by financing activities for the three months ended June 30, 2021 was \$1.7 million compared to net cash used of \$13.3 million in the comparable period in 2020. During the three months ended June 30, 2021, the Company had net draws under its credit facilities of \$5.0 million, debt issuance costs of \$1.6 million and lease principal payments of \$1.7 million.

On December 18, 2020, Calfrac completed the Recapitalization Transaction and the new financing of \$60.0 million 1.5 Lien Notes. The completion of the Recapitalization Transaction significantly reduced the Company's total debt and interest expense, and provided additional liquidity to fund ongoing operations.

During the first quarter of 2021, the Company recorded the rescission of \$1.0 million of its 1.5 Lien Notes. For accounting purposes, the \$1.0 million principal amount was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes.

On June 30, 2021, the Company amended its revolving credit facility agreement, which is available on SEDAR, to reduce its total facility capacity from \$290.0 million to \$225.0 million and extended the maturity date to July 1, 2023. The amended agreement includes a \$25.0 million accordion feature that is available to the Company during the term of the agreement. The Company's Funded Debt to Adjusted EBITDA covenant continues to be waived for the quarter ended June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 ("Covenant Relief Period") and 3.00x for each quarter end thereafter. The Covenant Relief Period terminates on the earlier of December 31, 2021 and any prior quarter end for which Calfrac has requested early termination and has provided a compliance certificate to its lenders certifying compliance with all financial covenants and where the Funded Debt to Adjusted EBITDA ratio is less than 3.00x at such quarter end.

The facilities consist of an operating facility of \$45.0 million and a syndicated facility of \$180.0 million. The Company's credit facilities mature on July 1, 2023, and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 1.00 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above during the Covenant Relief Period or if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00 and also during the Covenant Relief Period, certain restrictions apply including the following: (a) acquisitions are subject to consent of the lenders; (b) distributions are restricted other than those relating to the Company's equity compensation plans; (c) no increase in the rate of dividends are permitted; and (d) additional permitted debt is restricted to \$5.0 million. As at June 30, 2021, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold and the Company was also subject to the Covenant Relief Period restrictions.

Advances under the credit facilities are limited by a borrowing base. The borrowing base is calculated based on the sum of the following:

- Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for a specified purpose, including a potential equity cure; and
- 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$150.0 million.

At June 30, 2021, the Company had used \$0.8 million of its credit facilities for letters of credit and had \$155.0 million of borrowings under its credit facilities, leaving \$69.2 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, which was most recently calculated at \$192.2 million using June 30, 2021 results. The borrowing base at June 30 will govern borrowings for the month of August 2021. Under the terms of the Company's amended credit facility agreement, Calfrac must maintain a minimum liquidity amount of \$15.0 million during the Covenant Relief Period.

The Company's credit facilities contain certain financial covenants. As per the amended credit facility agreement, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarter ended June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in full compliance with its financial covenants associated with its credit facilities as at June 30, 2021.

Covenant Actual

As at June 30,	2021	2021
Working capital ratio not to fall below	1.15x	2.17x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾ N/A		5.44x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.22x

⁽¹⁾ *Funded Debt is defined as Total Debt excluding all outstanding second lien senior notes, 1.5 lien notes, and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for a specified purpose, including a potential equity cure).*

⁽²⁾ *Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.*

⁽³⁾ *Capitalization is Total Debt plus equity.*

On February 24, 2020, Calfrac executed an exchange offer of US\$120.0 million of new 10.875 percent second lien secured notes ("Second Lien Notes") due March 15, 2026 to holders of its existing 8.50 percent senior unsecured notes ("Unsecured Notes") due June 15, 2026. The Second Lien Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility and 1.5 Lien Notes. The exchange was completed at an exchange price of US\$550 for each US\$1,000 of Unsecured Notes, resulting in US\$218.2 million of Unsecured Notes being exchanged for US\$120.0 million of Second Lien Notes. The exchange resulted in reduced debt of approximately \$130.0 million and a reduction in annual debt service costs of approximately \$7.3 million.

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including June 30, 2023, subject to certain conditions including:

- i. the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;
- ii. the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;
- iii. the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a trailing four-quarter basis and \$25.0 million; and
- iv. if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June 30, 2023 will increase Adjusted EBITDA over the relevant twelve-month rolling period and may also serve to reduce Funded Debt unless used for other purposes.

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds \$20.0 million in a calendar year (\$10.0 million during the Covenant Relief Period), subject to certain exceptions. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed \$50.0 million at the time of any such dispositions, Calfrac must use the resulting proceeds to reduce the advances to less than \$50.0 million before using the balance for other purposes. Also, during the Covenant Relief Period, there is an obligation to reduce advances under the credit facilities using proceeds of any disposition of property or assets that exceed \$10.0 million, subject to certain exceptions.

The indentures governing the 1.5 Lien Notes and Second Lien Notes, which are available on SEDAR, contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indentures, in circumstances where:

- i. the Company is in default under either of the indentures or the making of such payment would result in a default;
- ii. the Company would not meet the Fixed Charge Coverage Ratio⁽¹⁾ under either of the indentures of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or
- iii. there is insufficient room for such payment within the builder baskets included in the indentures

⁽¹⁾ The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the indentures as net income (loss) before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, stock-based compensation, interest, and income taxes. Interest expense is adjusted to exclude any non-recurring charges associated with redeeming or retiring any indebtedness prior to its maturity.

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20.0 million in each of these indentures. As at June 30, 2021, these baskets were not utilized. The indentures also restrict the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness. The indenture governing the 1.5 Lien Notes includes restrictions on certain investments, including certain investments in subsidiary entities, however the indenture includes several exceptions to this prohibition, including a general basket of US\$10.0 million and baskets related to prepayments and certain capital build commitments which aggregate over US\$12.0 million. This indenture also contains a restriction that any indebtedness incurred in excess of \$290.0 million under the credit facilities basket shall be junior in priority to the 1.5 Lien Notes.

As at June 30, 2021, the Company's Fixed Charge Coverage Ratio of 0.69:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraph provide sufficient flexibility, subject to the \$5.0 million cap during the Covenant Relief Period discussed above, for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

INVESTING ACTIVITIES

Calfrac's net cash used for investing activities was \$13.5 million for the three months ended June 30, 2021 versus \$9.7 million in the comparable period in 2020. Cash outflows relating to capital expenditures during the quarter were \$14.6 million in 2021 compared to \$10.2 million during the same period in 2020. The Company has an approved capital budget of approximately \$55.0 million, which is comprised primarily of maintenance capital.

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The effect of changes in foreign exchange rates on the Company's cash and cash equivalents during the three months ended June 30, 2021 was a loss of \$0.3 million versus a loss of \$3.0 million in the same period in 2020. These losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

At June 30, 2021, the Company had a cash balance of \$20.7 million of which \$10.3 million was temporarily restricted and held in a segregated account. On July 6, 2021, the restricted funds were released as part of the maturity of a bankers' acceptance under the revolving credit facilities.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted options to purchase common shares under the Company's shareholder-approved omnibus incentive plan. The number of shares reserved for issuance under the plan is equal to 10 percent of the Company's issued and outstanding common shares. As at July 23, 2021, the Company had issued and outstanding 37,652,372 common shares, 5,788,199 warrants and 3,540,000 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	Jun. 30, 2020	Sep. 30, 2020	Dec. 31, 2020	Mar. 31, 2021	Jun. 30, 2021
<i>(C\$000s, except per share and operating data)</i> <i>(unaudited)</i>	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Financial								
Revenue	399,220	317,085	305,515	91,423	127,776	180,722	241,575	207,311
Operating income (loss) ⁽¹⁾	47,021	20,997	5,698	(7,307)	8,009	15,597	12,940	6,043
Per share – basic ⁽²⁾	16.25	7.25	1.97	(2.52)	2.76	1.91	0.35	0.16
Per share – diluted ⁽²⁾	16.18	7.22	1.96	(2.52)	2.75	0.27	0.15	0.07
Adjusted EBITDA ⁽¹⁾	43,028	26,882	6,812	(5,185)	8,467	13,715	11,936	4,393
Per share – basic ⁽²⁾	14.87	9.29	2.35	(1.79)	2.91	1.68	0.31	0.12
Per share – diluted ⁽²⁾	14.80	9.25	2.34	(1.79)	2.91	0.24	0.14	0.05
Net income (loss)	(29,424)	(49,400)	(122,857)	(277,275)	(50,000)	125,897	(22,418)	(30,535)
Per share – basic ⁽²⁾	(10.17)	(17.07)	(42.38)	(95.61)	(17.20)	15.43	(0.60)	(0.82)
Per share – diluted ⁽²⁾	(10.17)	(17.07)	(42.38)	(95.61)	(17.20)	2.19	(0.60)	(0.82)
Capital expenditures	38,885	34,418	29,283	6,068	2,792	6,487	11,586	18,065
Working capital (end of period)	257,189	248,772	233,125	157,165	127,989	161,448	170,088	152,176
Total equity (end of period)	414,195	368,623	239,099	(34,195)	(81,033)	410,234	384,561	350,631

Operating (end of period)

Active pumping horsepower (000s)	1,337	1,269	1,242	780	840	901	934	950
Idle pumping horsepower (000s)	72	141	174	572	505	444	411	393
Total pumping horsepower (000s)	1,409	1,410	1,416	1,352	1,345	1,345	1,345	1,343
Active coiled tubing units (#)	21	20	20	16	15	17	16	16
Idle coiled tubing units (#)	8	8	7	11	12	10	11	11
Total coiled tubing units (#)	29	28	27	27	27	27	27	27
Active cementing units (#)	14	13	13	13	12	12	10	10
Idle cementing units (#)	9	6	3	3	4	4	6	6
Total cementing units (#)	23	19	16	16	16	16	16	16

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Comparative amounts were adjusted to reflect the Company's fifty-to-one common share consolidation that occurred on December 18, 2020.

SEASONALITY OF OPERATIONS

The Company's North American business is seasonal. The lowest activity is typically experienced during the second quarter of the year when road weight restrictions are in place due to spring break-up weather conditions and access to well sites in Canada and North Dakota is reduced (refer to "Business Risks - Seasonality" in the 2020 Annual Report).

FOREIGN EXCHANGE FLUCTUATIONS

The Company's consolidated financial statements are reported in Canadian dollars. Accordingly, the quarterly results are directly affected by fluctuations in the exchange rates for United States, Russian and Argentinean currency (refer to "Business Risks - Fluctuations in Foreign Exchange Rates" in the 2020 Annual Report).

FINANCIAL OVERVIEW – SIX MONTHS ENDED JUNE 30, 2021 VERSUS 2020

CANADA

Six Months Ended June 30,	2021	2020	Change
<i>(C\$000s, except operational information)</i> <i>(unaudited)</i>	(\$)	(\$)	(%)
Revenue	136,349	132,432	3
Expenses			
Operating	116,165	109,901	6
Selling, general and administrative (SG&A)	710	4,228	(83)
	116,875	114,129	2
Operating income ⁽¹⁾	19,474	18,303	6
Operating income (%)	14.3	13.8	4
Fracturing revenue per job (\$)	19,886	16,791	18
Number of fracturing jobs	6,190	7,164	(14)

Active pumping horsepower, end of period (000s)	202	174	16
Idle pumping horsepower, end of period (000s)	70	105	(33)
Total pumping horsepower, end of period (000s)	272	279	(3)
Coiled tubing revenue per job (\$)	20,940	21,834	(4)
Number of coiled tubing jobs	633	556	14
Active coiled tubing units, end of period (#)	7	7	—
Idle coiled tubing units, end of period (#)	6	6	—
Total coiled tubing units, end of period (#)	13	13	—

(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the first six months in 2021 was \$136.3 million versus \$132.4 million in the same period in 2020 primarily due to changes in job mix. Work during 2021 shifted from smaller pad jobs in the Viking to larger pad jobs in the Montney resulting in an 18 percent increase in revenue per job from the comparable period in 2020. The number of coiled tubing jobs increased by 14 percent from the comparable period in 2020 due to higher activity, while revenue per job decreased by 4 percent due to changes in job mix.

OPERATING INCOME

The Company's Canadian division generated operating income of \$19.5 million compared to \$18.3 million in 2020. The Company recognized CEWS benefits of \$3.9 million in the first half of 2021 and 2020, although 2020 also included \$1.6 million of severance costs. SG&A expense for the first half of 2021 included a recovery of a litigation settlement, while operating expenses were higher due to an arbitral order, which together resulted in a net increase to operating income of \$0.7 million. Excluding these items normalized operating income for the first half of 2021 would have been \$14.9 million compared to \$16.0 million in 2020. The decrease in operating income is due to higher product costs resulting from changes in job mix.

UNITED STATES

Six Months Ended June 30,	2021	2020	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	179,601	192,304	(7)
Expenses			
Operating	179,520	184,727	(3)
SG&A	5,647	7,341	(23)
	185,167	192,067	(4)
Operating (loss) income ⁽¹⁾	(5,566)	236	NM
Operating (loss) income (%)	(3.1)	0.1	NM
Fracturing revenue per job (\$)	26,941	29,121	(7)
Number of fracturing jobs	6,664	6,601	1
Active pumping horsepower, end of period (000s)	550	423	30
Idle pumping horsepower, end of period (000s)	323	450	(28)
Total pumping horsepower, end of period (000s)	873	873	—
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	1	1	—
Total coiled tubing units, end of period (#)	1	1	—
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	3	2	50
Total cementing units, end of period (#)	3	2	50
US\$/C\$ average exchange rate ⁽²⁾	1.2471	1.3651	(9)

(1) Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to \$179.6 million in the first six months in 2021 from \$192.3 million in the same period in 2020, primarily due to a 7 percent decrease in fracturing revenue per job. The lower fracturing revenue per job was mainly due to the 9 percent depreciation of the U.S. dollar, offset partially by the impact of job mix. Overall activity was impacted in the first quarter by extreme cold weather which temporarily shutdown operations. Activity for the second quarter started off relatively strong, but was impacted by short notice schedule delays and the relocating of equipment between operating areas, where greater margin opportunities are expected in future periods.

OPERATING (LOSS) INCOME

The Company's United States division generated an operating loss of \$5.6 million during the first six months in 2021 compared to operating income of \$0.2 million in the comparable period in 2020. The first half of 2021 included the reactivation of two fracturing fleets and the relocation of a third fleet. These actions resulted in \$5.0 million of increased operating expenses during the period. Pricing during the first half of 2021 remained challenged and was not at levels required to generate positive returns. Utilization of the Company's fracturing fleets was stronger at times than the comparable period in 2020, however, the results were negatively impacted by weather delays in certain operating areas in the first quarter, while customer delays by key customers and the movement of equipment also impacted utilization during the second quarter. SG&A expenses decreased by 23 percent as the comparable period in 2020 included \$2.4 million of restructuring costs.

RUSSIA

Six Months Ended June 30,	2021	2020	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			

Revenue	61,163	44,928	36
Expenses			
Operating	52,931	42,718	24
SG&A	1,469	1,756	(16)
	54,400	44,474	22
Operating income ⁽¹⁾	6,763	454	NM
Operating income (%)	11.1	1.0	NM
Fracturing revenue per job (\$)	63,817	98,796	(35)
Number of fracturing jobs	875	405	116
Active pumping horsepower, end of period (000s)	77	65	18
Idle pumping horsepower, end of period (000s)	—	12	(100)
Total pumping horsepower, end of period (000s)	77	77	—
Coiled tubing revenue per job (\$)	40,329	45,514	(11)
Number of coiled tubing jobs	132	108	22
Active coiled tubing units, end of period (#)	4	3	33
Idle coiled tubing units, end of period (#)	3	4	(25)
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate ⁽²⁾	0.0168	0.0197	(15)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations in the first six months in 2021 of \$61.2 million was 36 percent higher than in the comparable period in 2020. The increase in revenue was attributable to a 116 percent increase in fracturing activity due to better utilization as the comparable six months had weather related issues. As well, a higher percentage of multi-stage work was completed in 2021, which resulted in a higher number of stages completed at a lower average job size. Revenue per fracturing job was 35 percent lower than in 2020 due to the 15 percent depreciation of the Russian rouble, combined with changes in job mix. Coiled tubing activity increased by 22 percent as the Company operated one additional coiled tubing unit, and the 11 percent decline in revenue per job was due to the decline in the Russian Rouble.

OPERATING INCOME

The Company's Russian division generated operating income of \$6.8 million during the first six months in 2021 compared to operating income of \$0.5 million in the comparable period in 2020. Utilization in the first half of 2021 improved significantly as the Company increased its operating footprint from five fracturing fleets in 2020 to six fleets in 2021, and the comparable period had weather-related issues during the first quarter. Operating results for the first six months of 2020 included \$0.4 million in severance costs.

ARGENTINA

Six Months Ended June 30,	2021	2020	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	71,772	27,274	163
Expenses			
Operating	59,342	31,341	89
SG&A	3,588	4,010	(11)
	62,930	35,351	78
Operating income (loss) ⁽¹⁾	8,842	(8,077)	NM
Operating income (loss) (%)	12.3	(29.6)	NM
Fracturing revenue per job (\$)	55,682	74,766	(26)
Number of fracturing jobs	798	176	353
Active pumping horsepower, end of period (000s)	121	118	3
Idle pumping horsepower, end of period (000s)	—	5	NM
Total pumping horsepower, end of period (000s)	121	123	(2)
Coiled tubing revenue per job (\$)	20,973	73,096	(71)
Number of coiled tubing jobs	442	87	408
Active coiled tubing units, end of period (#)	5	6	(17)
Idle coiled tubing units, end of period (#)	1	—	NM
Total coiled tubing units, end of period (#)	6	6	—
Cementing revenue per job (\$)	49,239	60,591	(19)
Number of cementing jobs	209	128	63
Active cementing units, end of period (#)	10	13	(23)
Idle cementing units, end of period (#)	3	1	200
Total cementing units, end of period (#)	13	14	(7)
US\$/C\$ average exchange rate ⁽²⁾	1.2471	1.3651	(9)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

⁽²⁾ Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of \$71.8 million during the first six months in 2021 versus \$27.3 million in the same period in 2020, primarily due to a significant increase in activity as the oilfield industry in Argentina experienced a complete shutdown in mid-March 2020 due to the COVID-19 pandemic, which affected all of the Company's operating regions and service lines. In the second quarter of 2021, Argentina saw a return to normal operations for all service lines including an increase to subcontractor revenue that was not experienced in the first half of 2020 due to changes in contracted service mix in Neuquén. Utilization was negatively impacted by some operational delays in Neuquén due to roadblocks in April

as union strikes caused the shutdown of all oilfield activity for 18 days and lower activity with a customer due to wellbore issues. The lower activity, however, was mitigated by a contractual arrangement that provided a minimum revenue guarantee during the second quarter. Revenue per job across all service lines was negatively impacted by the depreciation of the U.S. dollar.

OPERATING INCOME (LOSS)

In the first six months of 2021, the Company's operations in Argentina generated operating income of \$8.8 million, compared to an operating loss of \$8.1 million in the comparable period in 2020. The increase in operating income was due to improved equipment utilization as the comparable period in 2020 had an unprecedented revenue disruption caused by the government mandated shutdown of all oilfield activity in response to the COVID-19 pandemic.

CORPORATE

Six Months Ended June 30,	2021	2020 Change	
(C\$000s)	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Expenses			
Operating	708	1,580	(55)
SG&A	9,822	10,945	(10)
	10,530	12,525	(16)
Operating loss ⁽¹⁾	(10,530)	(12,525)	(16)
% of Revenue	2.3	3.2	(28)

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 24 and 25 for further information.

OPERATING LOSS

Corporate expenses during the first six months in 2021 were \$10.5 million compared to \$12.5 million in the comparable period in 2020. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions. This reduction was offset by higher professional fees during the first six months of 2021. The impact of the Canada Emergency Wage Subsidy and Emergency Rent programs was relatively consistent with the same period in 2020 with a combined reduction of \$0.8 million in 2021 and \$0.6 million in 2020.

DEPRECIATION

Depreciation expense during the first six months in 2021 decreased by \$46.5 million from \$109.5 million to \$63.0 million in the same period in 2020. The decrease was primarily due to the impact of the \$227.2 million of property, plant and equipment (PP&E) impairment charges that were recorded during the first six months of 2020, combined with lower sustaining capital expenditures.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of \$5.7 million during the first six months in 2021 versus a loss of \$1.9 million in the comparable period in 2020. Foreign exchange gains and losses arise primarily from the translation of net monetary assets or liabilities that were held in U.S. dollars in Canada, net monetary assets or liabilities that were held in pesos in Argentina, and liabilities held in Canadian dollars in Russia. The Company's foreign exchange loss in the first half in 2021 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period, combined with the revaluation of net monetary assets that were held in U.S. dollars as the Canadian dollar strengthened relative to the U.S. dollar.

INTEREST

The Company's interest expense of \$18.4 million in the first six months in 2021 was \$28.4 million lower than the comparable period in 2020. The decrease in interest expense was primarily due to the significant reduction in long-term debt resulting from the Recapitalization Transaction that closed on December 18, 2020, combined with the debt exchange that was completed during the first quarter in 2020. These transactions combined to eliminate US\$650.0 million of the Company's 8.50 percent Unsecured Notes and replaced it with US\$120.0 million of Second Lien Notes bearing interest at 10.875 percent and \$59.0 million of 1.5 Lien Notes at an annual interest rate of 10.0 percent. Interest expense in the first six months in 2020 also included the write-off of \$4.4 million of deferred finance costs related to the portion of Unsecured Notes that were exchanged during the period.

INCOME TAXES

The Company recorded an income tax recovery of \$15.5 million in the first six months in 2021 compared to a \$113.7 million tax expense in the comparable period in 2020. A deferred tax recovery of \$16.4 million was recorded primarily due to losses incurred in the United States and a current income tax expense of \$0.9 million resulted from current tax obligations in Russia and certain state taxes in the United States. The expense position in the first six months in 2020 was the result of the derecognition of the Company's deferred tax asset, which resulted in a deferred tax expense of \$115.6 million.

IMPAIRMENT

Since the impairment test that was conducted as at December 31, 2020, the Company did not identify any changes in the indicators of impairment or any new indicators of impairment. The impairment charge by CGU is shown in the table below.

	Six Months Ended Jun. 30,	
	2021	2020
(C\$000s)	(\$)	(\$)
Canada	—	116,280
United States	—	15,380
Argentina	—	68,669
Russia	—	26,879
	—	227,208

In addition, the Company also carried out a comprehensive review of its inventory in 2020 to identify individual items that were permanently idle or obsolete, with potential for impairment in value. The inventory write-down by CGU was as follows:

	Six Months Ended Jun. 30,	
	2021	2020

(C\$000s)	(\$)	(\$)
Canada	—	6,200
United States	—	10,668
Argentina	—	11,000
	—	<u>27,868</u>

ADVISORIES

FORWARD-LOOKING STATEMENTS

In order to provide Calfrac shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Calfrac's plans and future operations, certain statements contained in this press release, including statements that contain words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "forecast" or similar words suggesting future outcomes, are forward-looking statements.

In particular, forward-looking statements in this press release include, but are not limited to, statements with respect to the Recapitalization Transaction, including its expected benefits to the Company and impacts on its debt, liquidity and financial position, the U.S. appeal by Wilks Brothers, LLC, and the Company's expectations and intentions with respect to the foregoing and other matters relating to the Recapitalization Transaction, expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions, including with regard to its credit agreement and the indentures pursuant to which its 1.5 Lien Notes and Second Lien Notes were issued, and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure and positioning under existing legal proceedings), expectations regarding trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements. These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effectiveness of cost reduction measures instituted by the Company and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: the Company's ability to continue to manage the effect of the COVID-19 pandemic on its operations; actions taken by Wilks Brothers, LLC, decisions by securities regulators and/or the courts; restrictions resulting from compliance with or breach of debt covenants and risk of acceleration of indebtedness, including under the Company's credit facilities, 1.5 Lien Notes indenture and/or Second Lien Notes indenture; failure to reach any additional agreements with the Company's lenders; the impact of events of defaults in respect of other material contracts of the Company, including but not limited to, cross-defaults resulting in acceleration of amounts payable thereunder or the termination of such agreements; failure to receive any applicable regulatory, court, third party and other stakeholder approvals or decisions in respect of the Recapitalization Transaction and the court orders granting enforcement thereof; global economic conditions, the level of exploration, development and production for oil and natural gas in Canada, the United States, Argentina and Russia; the demand for fracturing and other stimulation services for the completion of oil and natural gas wells; volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; the availability of capital on satisfactory terms; direct and indirect exposure to volatile credit markets, including credit rating risk; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; excess oilfield equipment levels; regional competition; currency exchange rate risk; risks associated with foreign operations; dependence on, and concentration of, major customers; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; liabilities relating to legal and/or administrative proceedings; operating restrictions and compliance costs associated with legislative and regulatory initiatives relating to hydraulic fracturing and the protection of workers and the environment; changes in legislation and the regulatory environment; failure to maintain the Company's safety standards and record; liabilities and risks associated with prior operations; the ability to integrate technological advances and match advances from competitors; intellectual property risk; third party credit risk; failure to realize anticipated benefits of acquisitions and dispositions. Further information about these and other risks and uncertainties may be found under "Business Risks" below.

Consequently, all of the forward-looking statements made in this press release are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Company will be realized, or that they will have the expected consequences or effects on the Company or its business or operations. These statements speak only as of the respective date of this press release or the document incorporated by reference herein. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which is specifically incorporated by reference herein. The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be accessed at www.sedar.com. Copies of the Annual Information Form may also be obtained on request without charge from Calfrac at Suite 500, 407 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5, or at www.calfrac.com, or by facsimile at 403-266-7381.

NON-GAAP MEASURES

Certain supplementary measures presented in this press release do not have any standardized meaning under IFRS and, because IFRS have been incorporated as Canadian generally accepted accounting principles (GAAP), these supplementary measures are also non-GAAP measures. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's financial results, liquidity and ability to generate funds to finance its operations. These measures may not be comparable to similar measures presented by other entities, and are explained below.

Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, gains or losses on exchange or settlement of debt, impairment of property, plant and equipment, impairment of other assets, interest, and income taxes. Management believes that operating income is a useful supplemental measure as it provides an indication of the financial

results generated by Calfrac's business segments prior to consideration of how these segments are financed or taxed. Operating income for the period was calculated as follows:

	Three Months Ended Jun.30, 2021		Six Months Ended Jun. 30, 2020	
	2021	2020	2021	2020
(C\$000s)				
	(\$)	(\$)	(\$)	(\$)
(unaudited)				
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Add back (deduct):				
Depreciation	31,415	46,195	63,039	109,458
Foreign exchange losses (gains)	2,346	2,012	5,691	1,922
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Gain on exchange of debt	—	—	—	(130,444)
Interest	9,297	20,723	18,398	46,766
Income taxes	(7,221)	(401)	(15,546)	113,682
Operating income (loss)	6,043	(7,307)	18,983	(1,609)

Adjusted EBITDA is defined in the Company's credit facilities for covenant purposes as net income or loss for the period adjusted for interest, income taxes, depreciation and amortization, unrealized foreign exchange losses (gains), non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring. Adjusted EBITDA is presented because it is used in the calculation of the Company's bank covenants. Adjusted EBITDA for the period was calculated as follows:

	Three Months Ended Jun.30, 2021		Six Months Ended Jun. 30, 2020	
	2021	2020	2021	2020
(C\$000s)				
			(\$)	(\$)
(unaudited)				
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Add back (deduct):				
Depreciation	31,415	46,195	63,039	109,458
Unrealized foreign exchange losses	901	1,962	2,987	(318)
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Gain on exchange of debt	—	—	—	(130,444)
Litigation settlements	(700)	—	(700)	—
Restructuring charges	218	2,352	473	4,973
Stock-based compensation	277	(180)	277	503
Interest	9,297	20,723	18,398	46,766
Income taxes	(7,221)	(401)	(15,546)	113,682
Adjusted EBITDA ⁽¹⁾	4,393	(5,185)	16,329	1,627

⁽¹⁾ For bank covenant purposes, EBITDA includes the deduction of an additional \$4.1 million (six months ended June 30, 2020 - \$9.6 million) of lease payments that would have been recorded as operating expenses prior to the adoption of IFRS 16.

ADDITIONAL INFORMATION

Further information regarding Calfrac Well Services Ltd., including the most recently filed Annual Information Form, can be accessed on the Company's website at www.calfrac.com or under the Company's public filings found at www.sedar.com.

SECOND QUARTER CONFERENCE CALL

Calfrac will be conducting a conference call for interested analysts, brokers, investors and news media representatives to review its 2021 second quarter results at 10:00 a.m. (Mountain Time) on Thursday, July 29, 2021. The conference call dial-in number is 1-888-231-8191 or 647-427-7450. The seven-day replay numbers are 1-855-859-2056 or 416-849-0833 (once connected, enter 2790067). A webcast of the conference call may be accessed via the Company's website at www.calfrac.com.

CONSOLIDATED BALANCE SHEETS

	June 30, December 31,	
	2021	2020
(C\$000s) (unaudited)		
	(\$)	(\$)
ASSETS		
Current assets		
Cash and cash equivalents (note 1)	20,665	29,830
Accounts receivable	162,440	139,486
Income taxes recoverable	1,227	1,530
Inventories	91,929	83,294
Prepaid expenses and deposits	20,395	17,050
	296,656	271,190

Non-current assets		
Property, plant and equipment	573,484	618,488
Right-of-use assets	20,665	22,785
Total assets	890,805	912,463
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	137,002	101,784
Current portion of lease obligations	7,478	7,958
	144,480	109,742
Non-current liabilities		
Long-term debt (note 1)	347,377	324,633
Lease obligations	12,210	14,013
Deferred income tax liabilities	36,107	53,841
Total liabilities	540,174	502,229
Capital stock (note 3)	800,522	800,184
Conversion rights on convertible notes (note 1)	4,788	4,873
Contributed surplus	66,263	65,986
Warrants (notes 2 and 4)	40,548	40,797
Loan receivable for purchase of common shares	(2,500)	(2,500)
Accumulated deficit	(562,362)	(509,409)
Accumulated other comprehensive income	3,372	10,303
Total equity	350,631	410,234
Total liabilities and equity	890,805	912,463

Contingencies (note 6)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, Six Months Ended June 30,			
	2021	2020	2021	2020
<i>(C\$000s, except per share data) (unaudited)</i>				
	(\$)	(\$)	(\$)	(\$)
Revenue	207,311	91,423	448,886	396,938
Cost of sales	222,635	133,715	471,706	479,725
Gross loss	(15,324)	(42,292)	(22,820)	(82,787)
Expenses				
Selling, general and administrative	10,048	11,210	21,236	28,280
Foreign exchange losses	2,346	2,012	5,691	1,922
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Gain on exchange of debt (note 1)	—	—	—	(130,444)
Interest	9,297	20,723	18,398	46,766
	22,432	235,384	45,679	203,663
Loss before income tax	(37,756)	(277,676)	(68,499)	(286,450)
Income tax expense (recovery)				
Current	791	20	876	77
Deferred	(8,012)	(421)	(16,422)	113,605
	(7,221)	(401)	(15,546)	113,682
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Loss per share (note 3)				
Basic	(0.82)	(95.61)	(1.41)	(138.00)
Diluted	(0.82)	(95.61)	(1.41)	(138.00)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended June 30, Six Months Ended June 30,			
	2021	2020	2021	2020
<i>(C\$000s) (unaudited)</i>				
	(\$)	(\$)	(\$)	(\$)
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	(3,693)	4,161	(6,931)	(3,189)
Comprehensive loss	(34,228)	(273,114)	(59,884)	(403,321)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Conversion Rights on Convertible Notes	Contributed Surplus	Warrants	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Equity
<i>(C\$000s) (unaudited)</i>								
	(\$)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance – January 1, 2021	800,184	4,873	65,986	40,797	(2,500)	10,303	(509,409)	410,234
Net loss	—	—	—	—	—	—	(52,953)	(52,953)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	—	—	(6,931)	—	(6,931)
Comprehensive loss	—	—	—	—	—	(6,931)	(52,953)	(59,884)
Stock options:								
Stock-based compensation recognized	—	—	277	—	—	—	—	277
Rescission of equity portion of 1.5 Lien Notes	—	(85)	—	—	—	—	—	(85)
Warrants:								
Proceeds from issuance of shares (note 4)	338	—	—	(249)	—	—	—	89
Balance – June 30, 2021	800,522	4,788	66,263	40,548	(2,500)	3,372	(562,362)	350,631
Balance – January 1, 2020	509,235	—	44,316	—	(2,500)	2,746	(185,174)	368,623
Net loss	—	—	—	—	—	—	(400,132)	(400,132)
Other comprehensive income (loss):								
Cumulative translation adjustment	—	—	—	—	—	(3,189)	—	(3,189)
Comprehensive loss	—	—	—	—	—	(3,189)	(400,132)	(403,321)
Stock options:								
Stock-based compensation recognized	—	—	264	—	—	—	—	264
Performance share units:								
Stock-based compensation recognized	—	—	239	—	—	—	—	239
Shares issued (note 3)	1,275	—	(1,275)	—	—	—	—	—
Balance – June 30, 2020	510,510	—	43,544	—	(2,500)	(443)	(585,306)	(34,195)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	2021	2020	2021	2020
<i>(C\$000s) (unaudited)</i>				
	(\$)	(\$)	(\$)	(\$)
CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Adjusted for the following:				
Depreciation	31,415	46,195	63,039	109,458
Stock-based compensation	277	(180)	277	503
Unrealized foreign exchange losses (gains)	901	1,962	2,987	(318)
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Non-cash gain on exchange of debt (note 1)	—	—	—	(130,444)
Interest	9,297	20,723	18,398	46,766
Interest paid	(1,038)	(2,612)	(11,674)	(9,080)
Deferred income taxes	(8,012)	(421)	(16,422)	113,605
Changes in items of working capital	15,782	127,077	(5,040)	83,072
Cash flows provided by (used in) operating activities	18,828	116,908	(1,034)	70,569
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	3,421	34,146	22,191	58,404
Long-term debt repayments	—	(43,727)	(1,050)	(43,727)
Lease obligation principal repayments	(1,738)	(3,718)	(3,545)	(8,644)
Proceeds on issuance of common shares from the exercising of warrants	21	—	89	—
Cash flows provided by (used in) financing activities	1,704	(13,299)	17,685	6,033
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(14,584)	(10,203)	(25,458)	(37,016)
Proceeds on disposal of property, plant and equipment	461	379	648	1,028
Proceeds on disposal of right-of-use assets	578	104	759	412
Cash flows used in investing activities	(13,545)	(9,720)	(24,051)	(35,576)
Effect of exchange rate changes on cash and cash equivalents	(287)	(2,972)	(1,765)	4,332
Increase (decrease) in cash and cash equivalents	6,700	90,917	(9,165)	45,358
Cash and cash equivalents (bank overdraft), beginning of period	13,965	(2,997)	29,830	42,562
Cash and cash equivalents, end of period	20,665	87,920	20,665	87,920

See accompanying notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2021 and 2020

(Amounts in text and tables are in thousands of Canadian dollars, except share data and certain other exceptions as indicated)

1. LONG-TERM DEBT

	June 30, December 31, 2021	2020
(C\$000s)		
	(\$)	(\$)
\$225,000 extendible revolving term loan facility, secured by the Canadian and U.S. assets of the Company on a first priority basis	155,000	130,000
\$58,950 1.5 Lien Notes due December 18, 2023, bearing interest at 10.00% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis ahead of the Second Lien Notes	54,907	55,171
US\$120,000 Second Lien Notes due March 15, 2026, bearing interest at 10.875% payable semi-annually, secured by the Canadian and U.S. assets of the Company on a second priority basis	148,728	152,784
Less: unamortized debt issuance costs	(11,258)	(13,322)
	347,377	324,633

The fair value of the Second Lien Notes (as defined below), as measured based on the closing market price at June 30, 2021 was \$113,915 (December 31, 2020 – \$106,706). The carrying values of the revolving term loan facility and 1.5 Lien Notes approximate their fair value as the interest rate is not significantly different from current interest rates for similar loans.

a) 1.5 Lien Notes

On December 18, 2020, the Company issued \$60,000 of 1.5 Lien Notes due December 18, 2023 on a private placement basis. The terms of the 1.5 Lien Notes enable the holders to convert each \$1,000 principal amount into approximately 750 common shares at their discretion. Interest is payable in cash semi-annually on March 15 and September 15 of each year. On each interest payment date, the Company may elect to defer and pay in-kind any interest accrued as of such interest payment date by increasing the unpaid principal amount of the 1.5 Lien Notes as at such date (each, a "PIK Interest Payment"). Following each such increase in the principal amount of the 1.5 Lien Notes as a result of any PIK Interest Payment, the 1.5 Lien Notes will bear interest on such increased principal amount from and after the date of each such PIK Interest Payment. Upon repayment of the 1.5 Lien Notes, any interest which has accrued thereon but has not been capitalized as set forth above shall be paid in cash.

The liability portion of the 1.5 Lien Notes was recorded at an initial fair value of \$55,127 using a discount rate of 13.4 percent, representing the discount rate of a comparable debt instrument without a conversion feature. The remaining \$4,873 is the difference between the initial principal amount and the fair value of the liability component and was recorded as the equity portion of the conversion feature in shareholders' equity. The Company incurred transaction costs of \$7,596 associated with the issuance of the 1.5 Lien Notes which was allocated to debt issuance costs and share issuance costs on a proportional basis to the initial fair value of the liability and equity components.

During the first quarter of 2021, the Company recorded the rescission of \$1,050 of its 1.5 Lien Notes. For accounting purposes, the \$1,050 principal amount was recorded on a proportional basis as a reduction of the liability and equity portion of the 1.5 Lien Notes for \$965 and \$85, respectively.

The Company also opted to pay its first interest payment on the 1.5 Lien Notes in cash during the first quarter of 2021 rather than utilizing the payment-in-kind option.

b) Second Lien Notes

On February 24, 2020, the Company completed an exchange offer of US\$120,000 of new 10.875% second lien secured notes ("Second Lien Notes") due March 15, 2026 to holders of its existing Unsecured Notes. The exchange was completed at an average exchange price of US\$550 per each US\$1,000 of Unsecured Notes resulting in US\$218,182 being exchanged for US\$120,000 of Second Lien Notes, resulting in a non-cash gain on exchange of debt of \$130,444. The early settlement of the Unsecured Notes resulted in the write-off of \$4,449 of unamortized deferred finance costs.

c) Revolving Credit Facility

On June 30, 2021, the Company amended its revolving credit facility agreement to reduce its total facility capacity from \$290,000 to \$225,000 and extended the maturity date to July 1, 2023. The amended agreement includes a \$25,000 accordion feature that is available to the Company during the term of the agreement. The Company's Funded Debt to Adjusted EBITDA covenant continues to be waived for the quarter ended June 30, 2021 and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021 ("Covenant Relief Period") and 3.00x for each quarter end thereafter. The Covenant Relief Period terminates on the earlier of December 31, 2021 and any prior quarter end for which the Company has requested early termination and has provided a compliance certificate to its lenders certifying compliance with all financial covenants and where the Funded Debt to Adjusted EBITDA ratio is less than 3.00x at such quarter end. The facilities consist of an operating facility of \$45,000 and a syndicated facility of \$180,000.

The Company's credit facilities mature on July 1, 2023, and can be extended by one or more years at the Company's request and lenders' acceptance. The Company may also prepay principal without penalty. The interest rates are based on the parameters of certain bank covenants. For prime-based loans and U.S. base-rate loans, the rate ranges from prime or U.S. base rate plus 1.00 percent to prime plus 3.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 2.00 percent to 4.50 percent above the respective base rates. The Company incurs interest at the high end of the ranges outlined above during the Covenant Relief Period or if its net Total Debt to Adjusted EBITDA ratio is above 4.00:1.00. Additionally, in the event that the Company's net Total Debt to Adjusted EBITDA ratio is above 5.00:1.00 and also during the Covenant Relief Period, certain restrictions apply including the following: (a) acquisitions are subject to consent of the lenders; (b) distributions are restricted other than those relating to the Company's equity compensation plans; (c) no increase in the rate of dividends are permitted; and (d) additional permitted debt is restricted to \$5,000. As at June 30, 2021, the Company's net Total Debt to Adjusted EBITDA ratio exceeded the 5.00:1.00 threshold and was also subject to the Covenant Relief Period restrictions.

At June 30, 2021, the Company held \$10,261 of restricted cash in a segregated account. On July 6, 2021, the restricted funds were released as part of the maturity of a bankers' acceptance under the revolving credit facilities.

Debt issuance costs related to this facility are amortized over its term.

Interest on long-term debt (including the amortization of debt issuance costs and debt discount) for the six months ended June 30, 2021 was \$18,529 (six months ended June 30, 2020 – \$45,860).

The following table sets out an analysis of long-term debt and the movements in long-term debt:

	2021
(C\$000s)	
	(\$)
Balance, January 1	324,633
Issuance of long-term debt, net of debt issuance costs	22,191
Long-term debt repayments	(965)
Amortization of compound financial instrument discount	701
Amortization of debt issuance costs and debt discount	4,768
Foreign exchange adjustments	(3,951)
Balance, June 30	347,377

At June 30, 2021, the Company had utilized \$806 of its loan facility for letters of credit, had \$155,000 outstanding under its revolving term loan facility, leaving \$69,194 in available credit, subject to a monthly borrowing base, which was most recently calculated at \$192,159 using June 30, 2021 results. Under the terms of the amended credit facility agreement, the Company must maintain a minimum liquidity amount of \$15,000 during the Covenant Relief Period.

See note 5 for further details on the covenants in respect of the Company's long-term debt.

2. RECAPITALIZATION TRANSACTION

On December 18, 2020, the Company completed its Recapitalization Transaction, which was implemented pursuant to a Plan of Arrangement under the Canada Business Corporations Act. The Recapitalization Transaction involved the surrender and cancellation of the Company's US\$431,818 Unsecured Notes, including all accrued and unpaid interest, in exchange for common shares of the Company. In addition, the Company issued new \$60,000 1.5 lien senior secured 10% payment-in-kind convertible notes ("1.5 Lien Notes") due December 18, 2023 on a private placement basis. The proceeds from the issuance of the 1.5 Lien Notes were used to reduce the amounts owing under its revolving credit facility. All common share figures and share prices below are disclosed on a post-share consolidation basis of 50:1.

The composition of the gain on settlement of debt as reported in the statement of operations during the fourth quarter of 2020 was as follows:

(C\$000s)	Unsecured		Total
	Notes	Warrants	
Settlement of Unsecured Notes against shares issued to noteholders (note 2a)	(250,867)	—	—(250,867)
Forgiveness of accrued interest on Unsecured Notes (note 2a)	(47,272)	—	—(47,272)
Issuance of warrants (note 2b)	—	40,797	— 40,797
Transaction and associated costs ⁽¹⁾ (notes 2h and 4)	20,815	—	— 20,815
Issuance of shares in respect of the commitment fee related to the 1.5 Lien Notes (note 2g)	—	—	10,131 10,131
Withholding taxes on shares issued in respect of commitment fee on 1.5 Lien Notes (note 2g)	—	—	77 77
Total (gain) loss on settlement of debt⁽²⁾	(277,324)	40,797	10,208(226,319)

⁽¹⁾ Includes \$1,266 of other associated costs related to the Plan of Arrangement, of which \$1,092 were non-cash expenses.

⁽²⁾ \$198,847 of the total gain on settlement of debt was non-cash in nature.

(a) Unsecured Notes Settlement

The Company's US\$431,818 8.50% unsecured notes due June 15, 2026 ("Unsecured Notes"), plus all accrued and unpaid interest, were surrendered and cancelled in exchange for 33,491,870 common shares. The common shares were valued for accounting purposes at a price of \$9.00 per share, which represents the share price on December 21, 2020, the first trading day immediately following the announcement of the closing of this transaction, and resulted in an accounting gain on the settlement of debt of \$277,324. The settlement of the Unsecured Notes also resulted in the write-off of the remaining unamortized deferred finance costs that pertained to these notes which totaled \$7,387.

(b) Warrants

Under the Recapitalization Transaction, shareholders were entitled to receive two warrants for each common share held. Pursuant to the Plan of Arrangement, the Company issued 5,824,433 warrants to shareholders of record (i.e. registered shareholders) as of market close on December 17, 2020. Each warrant is exercisable for a period of three years into one common share at a price of \$2.50 per common shares subject to customary adjustments and restrictions. The fair value of the warrants of \$40,797 was estimated using a Black-Scholes pricing model, and was accounted for as a reduction of the gain on settlement of debt. See note 4 for further information on the warrants.

(c) Shareholder Cash Election

Under the Recapitalization Transaction, shareholders were provided the opportunity to elect for the Company to purchase all or any portion of their common shares for \$7.50 per share up to an aggregate maximum of \$10,000 in consideration available for shareholder cash elections. On December 18, 2020, 121,231 common shares were purchased for an aggregate cash election amount of \$926 including transaction costs. See note 3 for further information on the shareholder cash election.

(d) Common Share Consolidation

Immediately prior to the Unsecured Notes settlement, and after the issuance of warrants and settlement of shareholder cash elections noted above, the Company initiated a 50:1 share consolidation. See note 3 for further information on the share consolidation.

(e) Share-Based Compensation

Pursuant to the Plan of Arrangement, all of the Company's outstanding stock options and cash-based performance share units were terminated and cancelled for no consideration. All of the Company's outstanding equity-based performance shares units vested immediately prior to the effective time of the Plan of Arrangement and aggregate consideration of \$174 was paid to the holders thereof on a pro rata basis.

The cancellation of the stock options was accounted for as an acceleration of vesting and the remaining fair value of the options of \$780 was recorded as a reduction of the gain on settlement of debt during the fourth quarter of 2020.

The immediate vesting of the equity-based performance share units was accounted for as an acceleration of vesting and the remaining fair value of the share units of \$312 along with the cash consideration of \$174 was recognized during the fourth quarter of 2020 as a reduction of the gain on settlement of debt.

In connection with the approval of the Recapitalization Transaction, shareholders approved an omnibus incentive plan which permits the granting of various types of equity awards, including stock options, share appreciation rights, restricted shares, restricted share units, deferred share units and other share-based awards as determined by the Board of Directors. The number of shares reserved under the omnibus incentive plan is equal to 10 percent of the Company's issued and outstanding common shares. See note 4 for further information.

(f) 1.5 Lien Notes

In conjunction with the Recapitalization Transaction, the Company issued \$60,000 of 1.5 Lien Notes on a private placement basis. The gross proceeds of the 1.5 Lien Notes were used to reduce the Company's revolving credit facility, providing additional liquidity. During the first quarter of 2021, the Company recorded the rescission of \$1,050 of its 1.5 Lien Notes. See note 1 for further information.

(g) Commitment Fee on the 1.5 Lien Notes

In connection with the 1.5 Lien Notes offering, the Company issued 1,125,703 common shares to certain investors that backstopped the issuance of the 1.5 Lien Notes. These common shares were valued for accounting purposes at a price of \$9.00 per share which represents the share price on December 21, 2020, the first trading day immediately following the announcement of the closing of this transaction, and were accounted for as an increase to share capital of \$10,131 with a corresponding reduction of the gain on the settlement of debt.

(h) Transaction Costs

The Company incurred transaction costs totaling \$27,145 in connection with the Recapitalization Transaction. Of that amount, \$19,549 was related to the settlement of the Unsecured Notes and was recorded as a reduction of the gain of settlement of debt. The remaining \$7,596 was allocated to the issuance of the 1.5 Lien Notes as debt issuance costs or share issue costs, see note 1 for further information.

(i) Court Appeals and Regulatory Application

Appeals of Chapter 15 Enforcement Order

On December 11, 2020, Wilks Brothers, LLC and its affiliated funds (collectively "Wilks Brothers") filed a notice of appeal (the "District Court Appeal") to the United States District Court for the Southern District of Texas ("U.S. District Court") appealing an order by the United States Bankruptcy Court for the Southern District of Texas under Chapter 15 of the United States Bankruptcy Code entered effective December 1, 2020 ("Chapter 15 Enforcement Order"), granting enforcement of the October 30, 2020 order of the Court of Queen's Bench of Alberta approving the Plan of Arrangement pursuant to the Canada Business Corporations Act (the "CBCA Final Order"). At a hearing held on April 23, 2021, the U.S. District Court affirmed the Chapter 15 Enforcement Order and effectively denied the District Court Appeal (the "District Court Decision"). On June 1, 2021, Wilks Brothers filed a notice of appeal to the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit Appeal"). The briefing schedule and hearing dates for the Fifth Circuit Appeal remain to be determined. The Company believes it is well-positioned to prevail on the merits of the appeal.

Appeal of CBCA Final Order

On January 29, 2021, Wilks Brothers filed an application to the Supreme Court of Canada seeking leave to appeal the December 1, 2020 decision of the Court of Appeal of Alberta upholding the CBCA Final Order. On May 27, 2021, the Supreme Court of Canada dismissed the leave to appeal application with costs. The Supreme Court of Canada's dismissal of the leave to appeal application means that the CBCA Final Order, pursuant to which the Company implemented its Recapitalization Transaction, is no longer subject to any further Canadian appeal rights, and remains in full force and effect.

Review of Toronto Stock Exchange Decision

On April 22, 2021, the Wilks Brothers filed an application to the Ontario Securities Commission (the "OSC"), requesting a hearing and review by the OSC of the decision of the Toronto Stock Exchange (the "TSX") in March 2021 granting exemptive relief (the "TSX Decision") in respect of the rescission of the purchase of 1.5 Lien Notes acquired by an institutional shareholder (the "Subject Notes").

The TSX Decision confirmed that the conditional listing approval of the TSX in respect of the common shares issuable upon conversion of the remaining \$58,950 of 1.5 Lien Notes had been satisfied. Such confirmation was subject to, among other conditions, the completion of the rescission and cancellation of the Subject Notes, which was completed on April 15, 2021, as disclosed in note 1. Among the conditions imposed by the TSX Decision, the Company is subject to enhanced review by the TSX until at least March 2022.

On July 13, 2021, the OSC issued an order dismissing Wilks Brothers' application to set aside the TSX Decision following a hearing before the OSC on July 12, 2021. The OSC's reasons will be released at a later date.

3. CAPITAL STOCK

Authorized capital stock consists of an unlimited number of common shares.

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Continuity of Common Shares	Shares Amount	Shares Amount
	(#) (\$000s)	(#) (\$000s)
Balance, beginning of period	37,408,490	800,184
Issued upon exercise of warrants	35,517	338
		—

Issued upon vesting of performance share units	—	—	5,646	1,275
Issued on acquisition	—	—	8,913	2,500
Issued upon settlement of Unsecured Notes (note 2)	—	—	33,491,870	301,427
Issued for commitment fee on 1.5 Lien Notes (note 2)	—	—	1,125,703	10,131
Shares repurchased by shareholder cash election (note 2)	—	—	(121,231)	(21,268)
Cancellation of fractional shares upon 50:1 share consolidation	(114)	—	(189)	—
Share issue costs on 1.5 Lien Notes	—	—	—	(616)
Balance, end of period		37,443,893	800,522	37,408,490 800,184

On December 18, 2020, the Company consolidated its common shares on a basis of 50:1. All common share figures in the financial statements and comparatives have been adjusted to reflect the 50:1 effect, without a corresponding change in dollar amounts. Earnings per share have been adjusted to reflect the impact of the share consolidation.

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	2021	2020	2021	2020
	(\$)	(\$)	(#)	(#)
Weighted average number of common shares outstanding				
Basic	37,434,240	2,900,040	37,428,050	2,899,432
Diluted	83,422,250	2,912,337	83,625,449	2,911,799

The difference between basic and diluted shares is attributable to: warrants issued as part of the Recapitalization Transaction as disclosed in note 2, the dilutive effect of the conversion of the 1.5 Lien Notes as disclosed in note 1, and the dilutive effect of stock options issued by the Company as disclosed in note 4.

As disclosed in note 2, in conjunction with the Recapitalization Transaction, the Company purchased 121,231 common shares at a cost of \$926 and, of the amount paid, \$21,268 was charged to capital stock and \$20,342 to contributed surplus. These common shares were cancelled prior to December 31, 2020.

4. SHARE-BASED PAYMENTS

(a) Stock Options

Six Months Ended June 30,	2021		2020	
	Average	Average		
Continuity of Stock Options	Options Exercise Price	Options Exercise Price	Options	Exercise Price
	(#)	(\$)	(#)	(\$)
Balance, January 1	—	—	244,060	158.00
Granted	3,540,000	3.54	1,098	31.00
Forfeited	—	—	(45,720)	196.50
Expired	—	—	(2,142)	426.50
Balance, June 30	3,540,000	3.54	197,296	145.50

Stock options vest equally over three years and expire five years from the date of grant. The exercise price of outstanding options is \$3.54 with a weighted average remaining life of 4.93 years. When stock options are exercised, the proceeds together with the compensation expense previously recorded in contributed surplus, are added to capital stock.

The weighted average fair value of options granted during 2021, determined using the Black-Scholes valuation method, was \$2.15 per option (six months ended June 30, 2020 – \$0.27 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Six Months Ended June 30,	2021	2020
Expected life (years)	3.00	3.00
Expected volatility	100.25 %	71.18 %
Risk-free interest rate	0.50 %	0.87 %
Expected dividends	\$0.00	\$0.00

Expected volatility is estimated by considering historical average share price volatility.

(b) Share Units

Six Months Ended June 30,	2021		2020	
	Deferred	Deferred	Deferred	Performance
Continuity of Stock Units	Share Units	Share Units	Share Units	Share Units
	(#)	(#)	(#)	(#)
Balance, January 1	2,400	2,900	25,891	
Granted	105,000	2,100	19,723	
Exercised	—	—	(5,646)	
Forfeited	—	—	(6,708)	
Balance, June 30	107,400	5,000	33,260	

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2020	
	2021	2020	2021	2020
	(\$)	(\$)	(\$)	(\$)
Expense (recovery) from:				
Stock options	277	(235)	277	264
Deferred share units	36	(5)	55	(132)
Performance share units	—	55	—	239
Total stock-based compensation expense	313	(185)	332	371

Stock-based compensation expense is included in selling, general and administrative expenses, unless otherwise noted.

The Company grants deferred share units to its outside directors. These units vest on the first anniversary of the date of grant and are settled either in cash (equal to the market value of the underlying shares at the time of exercise) or in Company shares purchased on the open market. The fair value of the deferred share units is recognized equally over the vesting period, based on the current market price of the Company's shares. At June 30, 2021, the liability pertaining to deferred share units was \$45 (December 31, 2020 – \$9).

Changes in the Company's obligations under the deferred share unit plans, which arise from fluctuations in the market value of the Company's shares underlying these compensation programs, are recorded as the share value changes.

(c) Warrants

In conjunction with the Recapitalization Transaction, the Company issued 5,824,433 warrants to shareholders of record (i.e. registered shareholders) as of market close on December 17, 2020. Each warrant is exercisable for a period of three years into one common share at a price of \$2.50 per common shares, subject to customary adjustments and restrictions. The fair value of the warrants at issuance was estimated using a Black-Scholes pricing model, in the amount of \$40,797, and accounted for as a reduction of the gain on settlement of debt during the fourth quarter of 2020. The Company applied the following Black-Scholes model inputs:

Expected life (years)	3.00
Share price at grant date	\$9.00
Exercise price	\$2.50
Expected volatility	73.90 %
Risk-free interest rate	1.27 %
Expected dividends	\$0.00

At June 30, 2021, 35,517 warrants were exercised for total proceeds of \$89.

5. CAPITAL STRUCTURE

The Company's capital structure is comprised of shareholders' equity and debt. The Company's objectives in managing capital are (i) to maintain flexibility so as to preserve its access to capital markets and its ability to meet its financial obligations, and (ii) to finance growth, including potential acquisitions.

The Company manages its capital structure and makes adjustments in light of changing market conditions and new opportunities, while remaining cognizant of the cyclical nature of the oilfield services sector. To maintain or adjust its capital structure, the Company may revise its capital spending, issue new shares or new debt or repay existing debt. The Company recently completed its Recapitalization Transaction aimed at addressing its capital structure, see note 2 for further information.

The Company monitors its capital structure and financing requirements using, amongst other parameters, the ratio of net debt to operating income. Operating income for this purpose is calculated on a 12-month trailing basis and is defined as follows:

For the Twelve Months Ended	June 30, December 31,	
	2021	2020
(C\$000s)		
	(\$)	(\$)
Net income (loss)	22,944	(324,235)
Adjusted for the following:		
Depreciation	125,602	172,021
Foreign exchange losses	19,246	15,477
(Gain) loss on disposal of property, plant and equipment	(1,178)	24
Impairment of property, plant and equipment	—	227,208
Impairment of inventory	—	27,868
Impairment of other assets	—	507
Gain on settlement of debt	(226,319)	(226,319)
Gain on exchange of debt	—	(130,444)
Interest	62,899	91,267
Income taxes	39,395	168,623
Operating income	42,589	21,997

Net debt for this purpose is calculated as follows:

	June 30, December 31,	
	2021	2020
(C\$000s)		
	(\$)	(\$)
Long-term debt, net of debt issuance costs and debt discount	347,377	324,633
Lease obligations	19,688	21,971
Less: cash and cash equivalents	(20,665)	(29,830)
Net debt	346,400	316,774

The ratio of net debt to operating income does not have a standardized meaning under IFRS and may not be comparable to similar measures used by other companies.

At June 30, 2021, the net debt to operating income ratio was 8.13:1 (December 31, 2020 – 14.40:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	June 30, December 31,	
	2021	2020
(C\$000s, except ratio)		
	(\$)	(\$)

Net debt	346,400	316,774
Operating income	42,589	21,997
Net debt to operating income ratio	8.13:1	14.40:1

The Company is subject to certain financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities. These covenants are monitored on a monthly basis. As per the amended credit facility agreement as disclosed in note 1, the Company's Funded Debt to Adjusted EBITDA covenant is waived for the quarter ended June 30, 2021, and is 4.50x for the quarter ended September 30, 2021, 3.50x for the quarter ended December 31, 2021, and 3.00x for each quarter end thereafter. As shown in the table below, the Company was in full compliance with its financial covenants associated with its credit facilities as at June 30, 2021.

As at June 30,	Covenant	
	2021	2021
Working capital ratio not to fall below	1.15x	2.17x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	N/A	5.44x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.22x

⁽¹⁾ Funded Debt is defined as Total Debt excluding all outstanding Second Lien Notes, 1.5 Lien Notes, and lease obligations. Total Debt includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit. For the purposes of the Total Debt to Adjusted EBITDA ratio, the Funded Debt to Capitalization Ratio and the Funded Debt to Adjusted EBITDA ratio, the amount of Total Debt or Funded Debt, as applicable, is reduced by the amount of cash on hand with lenders (excluding any cash held in a segregated account for a specified purpose, including a potential equity cure).

⁽²⁾ Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, taxes, depreciation and amortization, non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring.

⁽³⁾ Capitalization is Total Debt plus equity.

Adjusted EBITDA is defined in the Company's credit facilities for covenant purposes as net income or loss for the period adjusted for interest, income taxes, depreciation and amortization, unrealized foreign exchange losses (gains), non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring. Adjusted EBITDA is presented because it is used in the calculation of the Company's bank covenants. Adjusted EBITDA for the period was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
(C\$000s)			(\$)	(\$)
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Add back (deduct):				
Depreciation	31,415	46,195	63,039	109,458
Unrealized foreign exchange losses (gains)	901	1,962	2,987	(318)
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Gain on exchange of debt	—	—	—	(130,444)
Litigation settlements	(700)	—	(700)	—
Restructuring charges	218	2,352	473	4,973
Stock-based compensation	277	(180)	277	503
Interest	9,297	20,723	18,398	46,766
Income taxes	(7,221)	(401)	(15,546)	113,682
Adjusted EBITDA ⁽¹⁾	4,393	(5,185)	16,329	1,627

⁽¹⁾ For bank covenant purposes, EBITDA includes the deduction of an additional \$4,099 of lease payments for the six months ended June 30, 2021 (six months ended June 30, 2020 – \$9,592) that would have been recorded as operating expenses prior to the adoption of IFRS 16.

Advances under the credit facilities are limited by a borrowing base. The borrowing base is calculated based on the following:

- Eligible North American accounts receivable, which is based on 75 percent of accounts receivable owing by companies rated BB+ or lower by Standard & Poor's (or a similar rating agency) and 85 percent of accounts receivable from companies rated BBB- or higher;
- 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for a specified purpose, including a potential equity cure; and
- 25 percent of the net book value of property, plant and equipment (PP&E) of the parent company and its U.S. operating subsidiary. The value of PP&E excludes assets under construction and is limited to \$150,000.

The indentures governing the Second Lien Notes and 1.5 Lien Notes contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company and make certain restricted investments, that are not defined as Permitted Investments under the indentures, in circumstances where:

- the Company is in default under either of the indentures or the making of such payment would result in a default;
- the Company would not meet the Fixed Charge Coverage Ratio⁽¹⁾ under either of the indentures of at least 2:1 for the most recent four fiscal quarters, after giving pro forma effect to such restricted payment as if it had been made at the beginning of the applicable four fiscal quarter period; or
- there is insufficient room for such payment within the builder baskets included in the indentures

(1) *The Fixed Charge Coverage Ratio is defined as cash flow to interest expense. Cash flow is a non-GAAP measure and does not have a standardized meaning under IFRS and is defined under the indentures as net income (loss) before depreciation, extraordinary gains or losses, unrealized foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment or reversal of impairment of assets, restructuring charges, stock-based compensation, interest, and income taxes. Interest expense is adjusted to exclude any non-recurring charges associated with redeeming or retiring any indebtedness prior to its maturity.*

These limitations on restricted payments are tempered by the existence of a number of exceptions to the general prohibition, including a basket allowing for restricted payments in an aggregate amount of up to US\$20,000 in each of the indentures. As at June 30, 2021, these baskets were not utilized.

The indentures also restrict the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2:1. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of additional indebtedness. The indenture governing the 1.5 Lien Notes includes restrictions on certain investments including certain investments in subsidiary entities, however the indenture includes several exceptions to this prohibition, including a general basket of US\$10,000 and baskets related to prepayments and certain capital build commitments which aggregate over US\$12,000. This indenture also contains a restriction that any indebtedness incurred in excess of \$290,000 under the credit facilities basket shall be junior in priority to the 1.5 Lien Notes.

As at June 30, 2021, the Company's Fixed Charge Coverage Ratio of 0.69:1 was below the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indentures, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility, subject to the \$5,000 cap during the Covenant Relief Period discussed above, for the Company to incur additional indebtedness and make anticipated restricted payments which may be required to conduct its operations.

Proceeds from equity offerings may be applied, as an equity cure, in the calculation of Adjusted EBITDA towards the Funded Debt to Adjusted EBITDA covenant for any of the quarters ending prior to and including June 30, 2023, subject to certain conditions including:

- i.* the Company is only permitted to use the proceeds of a common share issuance to increase Adjusted EBITDA a maximum of two times;
- ii.* the Company cannot use the proceeds of a common share issuance to increase Adjusted EBITDA in consecutive quarter ends;
- iii.* the maximum proceeds of each common share issuance permitted to be attributed to Adjusted EBITDA cannot exceed the greater of 50 percent of Adjusted EBITDA on a rolling four-quarter basis and \$25,000; and
- iv.* if proceeds are not used immediately as an equity cure they must be held in a segregated bank account pending an election to use them for such purpose, and if they are removed from such account but not used as an equity cure they will no longer be eligible for such use.

To utilize an equity cure, the Company must provide notice of any such election to the lending syndicate at any time prior to the filing of its quarterly financial statements for the applicable quarter on SEDAR. Amounts used as an equity cure prior to June 30, 2023 will increase Adjusted EBITDA over the relevant twelve-month rolling period and may also serve to reduce Funded Debt unless used for other purposes.

The Company's credit facilities also require majority lender consent for dispositions of property or assets in Canada and the United States if the aggregate market value exceeds \$20,000 in a calendar year (\$10,000 during the Covenant Relief Period), subject to certain exceptions. There are no restrictions pertaining to dispositions of property or assets outside of Canada and the United States, except that to the extent that advances under the credit facilities exceed \$50,000 at the time of any such dispositions, the Company must use the resulting proceeds to reduce the advances to less than \$50,000 before using the balance for other purposes. Also, during the Covenant Relief Period, there is an obligation to reduce advances under the credit facilities using proceeds of any disposition of property or assets that exceed \$10,000, subject to certain exceptions.

6. CONTINGENCIES

GREEK LITIGATION

As a result of the acquisition and amalgamation with Denison in 2004, the Company assumed certain legal obligations relating to Denison's Greek operations.

In 1998, North Aegean Petroleum Company E.P.E. ("NAPC"), a Greek subsidiary of a consortium in which Denison participated (and which is now a majority-owned subsidiary of the Company), terminated employees in Greece as a result of the cessation of its oil and natural gas operations in that country. Several groups of former employees filed claims against NAPC and the consortium alleging that their termination was invalid and that their severance pay was improperly determined.

In 1999, the largest group of plaintiffs received a ruling from the Athens Court of First Instance that their termination was invalid and that salaries in arrears amounting to approximately \$10,063 (6,846 euros) plus interest were due to the former employees. This decision was appealed to the Athens Court of Appeal, which allowed the appeal in 2001 and annulled the above-mentioned decision of the Athens Court of First Instance. The said group of former employees filed an appeal with the Supreme Court of Greece, which was heard on May 29, 2007. The Supreme Court of Greece allowed the appeal and sent the matter back to the Athens Court of Appeal for the consideration of the quantum of awardable salaries in arrears. On June 3, 2008, the Athens Court of Appeal rejected NAPC's appeal and reinstated the award of the Athens Court of First Instance, which decision was further appealed to the Supreme Court of Greece. The matter was heard on April 20, 2010 and a decision rejecting such appeal was rendered in June 2010. As a result of Denison's participation in the consortium that was named in the lawsuit, the Company was served with three separate payment orders, one on March 24, 2015 and two others on December 29, 2015. The Company was also served with an enforcement order on November 23, 2015.

Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of these orders on the basis they were improperly issued and are barred from a statute of limitations perspective. Hearings in respect of each of the orders have been held, and in each case, decisions were rendered accepting the Company's position. All of these decisions were appealed, but the favorable judgments have all been confirmed in the Company's favor. The plaintiffs have filed petitions for cassation against three of the appeal judgments, and will have 30 days to file a petition for cassation following the service of the remaining judgment once it has been certified. No hearings have been scheduled for the three pending cassation petitions.

NAPC is also the subject of a claim for approximately \$3,236 (2,201 euros) plus associated penalties and interest from the Greek social security agency for social security obligations associated with the salaries in arrears that are the subject of the above-mentioned decision.

The maximum aggregate interest and penalties payable under the claims noted above, as well as three other immaterial claims against NAPC totaling \$849 (578 euros), amounted to \$29,467 (20,047 euros) as at June 30, 2021.

Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision has been recorded in these consolidated financial statements.

7. SEGMENTED INFORMATION

The Company's activities are conducted in four geographical segments: Canada, the United States, Russia and Argentina. All activities are related to hydraulic fracturing, coiled tubing, cementing and other well completion services for the oil and natural gas industry.

The business segments presented reflect the Company's management structure and the way its management reviews business performance. The Company evaluates the performance of its operating segments primarily based on operating income, as defined below.

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Three Months Ended June 30, 2021						
Revenue	50,766	86,688	33,542	36,314	—	207,310
Operating income (loss) ⁽¹⁾	4,295	(2,554)	5,287	4,928	(5,913)	6,043
Segmented assets	221,043	511,361	72,555	85,846	—	890,805
Capital expenditures	1,747	11,935	994	3,389	—	18,065

Three Months Ended June 30, 2020						
Revenue	27,813	38,192	23,937	1,481	—	91,423
Operating income (loss) ⁽¹⁾	6,328	(4,951)	2,752	(6,445)	(4,991)	(7,307)
Segmented assets	263,776	652,030	48,942	54,070	—	1,018,818
Capital expenditures	2,138	2,624	292	1,014	—	6,068

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Six Months Ended June 30, 2021						
Revenue	136,349	179,601	61,163	71,772	—	448,885
Operating income (loss) ⁽¹⁾	19,474	(5,566)	6,763	8,842	(10,530)	18,983
Segmented assets	221,043	511,361	72,555	85,846	—	890,805
Capital expenditures	2,840	19,978	2,077	4,756	—	29,651

Six Months Ended June 30, 2020						
Revenue	132,432	192,304	44,928	27,274	—	396,938
Operating income (loss) ⁽¹⁾	18,303	236	454	(8,077)	(12,525)	(1,609)
Segmented assets	263,776	652,030	48,942	54,070	—	1,018,818
Capital expenditures	6,372	26,655	879	1,445	—	35,351

⁽¹⁾ Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, impairment of inventory, impairment of property, plant and equipment, interest, and income taxes.

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2020	
(C\$000s)	2021	2020	2021	2020
Net loss	(30,535)	(277,275)	(52,953)	(400,132)
Add back (deduct):				
Depreciation	31,415	46,195	63,039	109,458
Foreign exchange losses	2,346	2,012	5,691	1,922
Loss (gain) on disposal of property, plant and equipment	741	(113)	354	1,556
Impairment of property, plant and equipment	—	173,684	—	227,208
Impairment of inventory	—	27,868	—	27,868
Impairment of other assets	—	—	—	507
Provision for settlement of litigation	—	—	—	(130,444)
Interest	9,297	20,723	18,398	46,766
Income taxes	(7,221)	(401)	(15,546)	113,682
Operating income (loss)	6,043	(7,307)	18,983	(1,609)

Operating income does not have a standardized meaning under IFRS and may not be comparable to similar measures used by other companies.

SOURCE Calfrac Well Services Ltd.

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