



Calfrac Announces First Quarter Results

June 25, 2020

CALGARY, AB, June 25, 2020 /CNW/ - **Calfrac Well Services Ltd. ("Calfrac" or "the Company")** (TSX: CFW) announces its financial and operating results for the three months ended March 31, 2020.

HIGHLIGHTS

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except per share and unit data)	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Financial			
Revenue	305,515	475,012	(36)
Operating income (loss) ⁽¹⁾	5,698	43,623	(87)
Per share – basic	0.04	0.30	(87)
Per share – diluted	0.04	0.30	(87)
Adjusted EBITDA ⁽¹⁾	6,812	44,086	(85)
Per share – basic	0.05	0.31	(84)
Per share – diluted	0.05	0.30	(83)
Net income (loss)	(122,857)	(36,334)	NM
Per share – basic	(0.85)	(0.25)	NM
Per share – diluted	(0.85)	(0.25)	NM
Working capital (end of period)	233,125	276,785	(16)
Total equity (end of period)	239,099	481,675	(50)
Weighted average common shares outstanding (000s)			
Basic	144,941	144,404	—
Diluted	145,556	146,239	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 17 and 18 for further information..

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented on the results: "During a significant slowdown in both the global economy and our customers' spending plans, the Calfrac team remained focused on safety and service quality throughout the quarter, continuing to deliver on our Brand Promise in a very challenging set of circumstances. Well done to all and I can't imagine a better team to face the future with."

RESPONSE TO COVID-19 AND OIL MARKET EVENTS

During the first quarter of 2020, the global economy slowed significantly in response to the worldwide coronavirus pandemic while the oil industry was further impacted by the response of the OPEC+ group to demand changes. These events resulted in a material slowdown in oilfield activity globally, and required swift and decisive actions on the part of Calfrac's management team.

These actions included a significant reduction in its operating footprint in North America as well as compensation and headcount reductions across all areas of the Company. Calfrac's capital budget was also reduced materially in light of the reduced operating footprint. In total, Calfrac has removed over \$150 million from its operating spending and \$45 million from its capital budget in response to volatile market conditions.

CONSOLIDATED HIGHLIGHTS

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
<i>(unaudited)</i>			
Revenue	305,515	475,012	(36)
Expenses			
Operating	282,747	412,185	(31)
Selling, general and administrative (SG&A)	17,070	19,204	(11)
	299,817	431,389	(30)
Operating income ⁽¹⁾	5,698	43,623	(87)
Operating income (%)	1.9	9.2	(79)
Adjusted EBITDA ⁽¹⁾	6,812	44,086	(85)
Adjusted EBITDA (%)	2.2	9.3	(76)
Fracturing revenue per job (\$)	23,323	33,093	(30)
Number of fracturing jobs	11,969	13,100	(9)
Active pumping horsepower, end of period (000s)	1,242	1,344	(8)
Idle pumping horsepower, end of period (000s)	174	36	NM
Total pumping horsepower, end of period (000s)	1,416	1,380	3
Coiled tubing revenue per job (\$)	34,804	30,463	14
Number of coiled tubing jobs	542	843	(36)
Active coiled tubing units, end of period (#)	20	21	(5)
Idle coiled tubing units, end of period (#)	7	8	(13)

Total coiled tubing units, end of period (#)	27	29	(7)
Cementing revenue per job (\$)	61,979	39,389	57
Number of cementing jobs	121	118	3
Active cementing units, end of period (#)	13	11	18
Idle cementing units, end of period (#)	3	12	(75)
Total cementing units, end of period (#)	16	23	(30)

(1) Refer to "Non-GAAP Measures" on pages 17 and 18 for further information.

Revenue in the first quarter of 2020 was \$305.5 million, a decrease of 36 percent from the same period in 2019. The Company's consolidated revenue per fracturing job decreased by 30 percent mainly due to a combination of lower pricing in the United States and a greater proportion of customers providing their own sand while fracturing job count decreased by 9 percent. Cementing activity in Argentina was higher by 3 percent while consolidated coiled tubing activity decreased by 36 percent as a result of lower activity in Canada, Argentina and Russia.

Since the end of 2019, Calfrac has decreased the number of active fracturing fleets as well as its operating and corporate cost structure in order to respond to the decline in fracturing activity in Canada and the United States. Consequently, the Company's operating footprint was more closely aligned with the 9 percent decline in job count experienced in the first quarter of 2020 as compared to the first quarter of the prior year. Additionally, uncertainty surrounding Argentina's change in government, combined with the government mandated shutdown in March due to COVID-19, impacted activity levels in that country during the first quarter.

Pricing in Canada and the United States decreased, while pricing in Russia was consistent with the first quarter of 2019. In Argentina, the mix of service line revenue changed during the first quarter of 2020 resulting in more favorable contract pricing compared to the same period in 2019.

Adjusted EBITDA of \$6.8 million for the first quarter of 2020 decreased from \$44.1 million in the comparable period in 2019 primarily due to lower utilization and pricing in the United States and lower activity in Argentina. The Company recorded restructuring charges of \$2.6 million in the first quarter of 2020.

Net loss was \$122.9 million or \$0.85 per share diluted compared to a net loss of \$36.3 or \$0.25 per share diluted in the same period last year. The Company recorded a gain on debt exchange of \$130.4 million, a \$115.6 million deferred tax expense related to the write-off of the Company's deferred tax asset, and an impairment of PP&E and other assets of \$54.0 million during the first quarter in 2020.

Three Months Ended	March 31, 2020	December 31, 2019	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	305,515	317,085	(4)
Expenses			
Operating	282,747	281,278	1
SG&A	17,070	14,810	15
	299,817	296,088	1
Operating income ⁽¹⁾	5,698	20,997	(73)
Operating income (%)	1.9	6.6	(71)
Adjusted EBITDA ⁽¹⁾	6,812	26,882	(75)
Adjusted EBITDA (%)	2.2	8.5	(74)
Fracturing revenue per job (\$)	23,323	29,039	(20)
Number of fracturing jobs	11,969	10,104	18
Active pumping horsepower, end of period (000s)	1,242	1,269	(2)
Idle pumping horsepower, end of period (000s)	174	141	23
Total pumping horsepower, end of period (000s)	1,416	1,410	—
Coiled tubing revenue per job (\$)	34,804	27,018	29
Number of coiled tubing jobs	542	609	(11)
Active coiled tubing units, end of period (#)	20	20	—
Idle coiled tubing units, end of period (#)	7	8	(13)
Total coiled tubing units, end of period (#)	27	28	(4)
Cementing revenue per job (\$)	61,979	47,379	31
Number of cementing jobs	121	128	(5)
Active cementing units, end of period (#)	13	13	—
Idle cementing units, end of period (#)	3	6	(50)
Total cementing units, end of period (#)	16	19	(16)

(1) Refer to "Non-GAAP Measures" on pages 17 and 18 for further information.

Revenue in the first quarter of 2020 was \$305.5 million, a decrease of 4 percent from the fourth quarter of 2019, primarily due to lower fracturing activity in the United States and Argentina, offset partially by increased activity in Canada. Revenue per fracturing job was 20 percent lower compared with the fourth quarter of 2019 due to a greater proportion of customers providing their own sand in the United States and smaller job sizes in Argentina.

In Canada, first-quarter revenue increased by 43 percent from the fourth quarter to \$104.6 million due to higher activity as clients replenished their capital budgets during the first quarter. Operating income as a percentage of revenue was 11 percent compared to 5 percent in the fourth quarter primarily due to higher utilization after a slow start in January.

In the United States, revenue in the first quarter of 2020 was 18 percent lower than the fourth quarter at \$154.1 million as downward pricing pressure continued in certain geographic markets, combined with an increase in the number of clients procuring their own sand. Operating income of \$5.2 million in the first quarter was \$18.4 million lower than the fourth quarter of 2019 although the prior quarter included \$10.2 million of costs reclassified from operating expenses to capital expenditures due to a revision in the capitalization thresholds for major components.

In Russia, revenue of \$21.0 million in the first quarter of 2020 was 13 percent lower than the fourth quarter while the operating loss was 7 percent higher due to lower utilization caused by early spring break-up conditions in Western Siberia.

In Argentina, revenue in the first quarter of 2020 decreased by 20 percent from the fourth quarter to \$25.8 million, with an operating loss of \$1.6 million compared to operating income of \$5.8 million in the fourth quarter. The decrease in revenue and operating income was primarily attributed to continued uncertainty surrounding Argentina's change in government combined with the government mandated shutdown in March due to COVID-19.

The operating loss was due to the lower revenue base in the quarter and the sudden shutdown of operations as a result of the COVID-19 pandemic which did not allow for any meaningful cost reductions.

Adjusted EBITDA of \$6.8 million for the first quarter of 2020 decreased from \$26.9 million in the fourth quarter of 2019 primarily due to lower utilization in the United States and Argentina. As noted above, fourth quarter 2019 results included a one-time \$10.9 million positive adjustment related to the change in the Company's capitalization thresholds for the rebuild and replacement of major components of property, plant and equipment.

Net loss was \$122.9 million or \$0.85 per share diluted compared to a net loss of \$49.4 million or \$0.34 per share diluted in the fourth quarter of 2019. The Company recorded a gain on debt exchange of \$130.4 million, a \$115.6 million deferred tax expense related to the write-off of the Company's deferred tax asset, and an impairment of PP&E and other assets of \$54.0 million during the first quarter in 2020.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the first quarter were impacted by weather-related issues in Russia, Canada and the United States, as well as the beginnings of activity restrictions as part of COVID-19 responses and field program shutdowns due to a material reduction in global oil prices. In general, results were consistent with the guidance delivered in early March with a slow start to 2020 programs in North Dakota largely driving the sequential change.

As the quarter unfolded, activity globally improved until the impacts of current commodity prices impacted operations in the latter half of March. The Company, after communicating with its client base globally, took reasoned and prudent actions to reduce both its operating expenses and capital spending in response to the deteriorating market conditions.

CANADA

In Canada, activity met expectations after ramping up in the middle of January despite minor impacts due to weather-related delays for specific programs. For the most part, first-quarter activity levels were not materially impacted by budget reductions announced by its customers in response to reduced oil prices.

As a result of Calfrac's cost reductions, the Company is positioned to deploy up to three fracturing spreads in western Canada in the second half of 2020, with two active today. This plan will continue to evolve based on conversations with clients throughout the remainder of 2020. Incremental equipment will not be reactivated without visibility on work volumes and acceptable returns.

Activity during the second quarter is expected to significantly decrease on a sequential and year-over-year basis but the Company remains focused on delivering break-even operating income or better on a full-year basis in 2020.

UNITED STATES

As expected, operations in the first quarter began at a lower pace as a number of programs in North Dakota did not commence in January due to typical weather patterns. By early February, the Company was active on as many as 14 fleets in the United States, before seeing a rapid reduction in activity during March as customer plans were adjusted to respond to the significant decrease in crude oil prices.

Calfrac's initial cost cutting plan was based on nine fleets in North America, with six in the United States. Subsequent to that plan, further program reductions were communicated to Calfrac and as a result, the Company has reduced its near-term staffing capacity to four fleets in its United States operations.

As oil prices have recovered in recent weeks, discussions have begun around a modest resumption of activity with a number of clients. The rapid shutdown of programs and equipment should result in significantly lower reactivation costs than were experienced in 2016 through 2018.

RUSSIA

The first quarter of 2020 in Russia was marked by unusual weather-related impacts on its operations. In 2020, the Company experienced a relatively warm winter in Western Siberia which prevented the use of ice bridges in its main operating region and significantly impacted access to well locations during the first quarter. The Company expects the second and third quarters to generate significantly better results than the first quarter, however, there remains a risk to programs being delayed due to infection prevention measures and commodity prices.

ARGENTINA

In Argentina, Calfrac's operations were impacted by a number of issues. First, the change in government compounded the normal end of year slowdowns in most basins. As operations ramped up, a small number of program-specific delays resulted in a number of significant gaps in the fracturing calendar in the Vaca Muerta region. Finally, a government-mandated shutdown of field operations resulted in a material reduction in activity through the last portion of the quarter. As of today, Calfrac's operations in Argentina have resumed, however, operations in the Vaca Muerta will be the last to restart given their larger scale and higher personnel requirements.

CORPORATE

After the completion of a previously disclosed debt exchange in the quarter, the impacts of COVID-19 shifted Calfrac's corporate focus to cost and capital budget reductions. In the face of an unprecedented downturn in our industry, Calfrac's leadership team continues to react in a prudent but rapid manner to the changing market conditions. Calfrac continues to examine alternatives for the Company's balance sheet with the assistance of our advisors and we will continue to provide further updates as available.

FINANCIAL OVERVIEW – THREE MONTHS ENDED MARCH 31, 2020 VERSUS 2019

CANADA

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except operational information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	104,619	131,395	(20)
Expenses			
Operating	89,693	114,668	(22)
SG&A	2,951	3,001	(2)
	92,644	117,669	(21)
Operating income ⁽¹⁾	11,975	13,726	(13)
Operating income (%)	11.4	10.4	10
Fracturing revenue per job (\$)	15,290	15,466	(1)
Number of fracturing jobs	6,186	7,474	(17)
Active pumping horsepower, end of period (000s)	237	301	(21)

Idle pumping horsepower, end of period (000s)	36	5	NM
Total pumping horsepower, end of period (000s)	273	306	(11)
Coiled tubing revenue per job (\$)	25,031	24,585	2
Number of coiled tubing jobs	401	602	(33)
Active coiled tubing units, end of period (#)	11	11	—
Idle coiled tubing units, end of period (#)	2	3	(33)
Total coiled tubing units, end of period (#)	13	14	(7)

(1) Refer to "Non-GAAP Measures" on pages 17 and 18 for further information

REVENUE

Revenue from Calfrac's Canadian operations during the first quarter of 2020 was \$104.6 million compared to \$131.4 million in the same period of 2019 primarily due to lower activity. In the first quarter of 2020, the number of fracturing jobs was 17 percent lower than the comparable period in 2019 due to a smaller operating footprint combined with unfavorable weather conditions during January. During the quarter, the Company operated five fleets versus eight fracturing fleets in 2019, while revenue per job was consistent with the comparable quarter. The number of coiled tubing jobs decreased by 33 percent from the first quarter in 2019 as the number of coiled tubing crews was reduced by two while revenue per job increased by 2 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the first quarter of 2020 was \$12.0 million compared to \$13.7 million in the same period of 2019. As a percentage of revenue, the Company's operating income increased from 10 percent to 11 percent in 2020 despite a 20 percent decrease in revenue. This increase was due to higher equipment utilization as the Company operated a reduced number of crewed fleets. The 13 percent decrease in operating income on a dollar basis was mainly due to \$1.6 million in restructuring costs that were recorded in the first quarter of 2020.

UNITED STATES

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	154,112	259,125	(41)
Expenses			
Operating	144,729	216,714	(33)
SG&A	4,196	4,667	(10)
	148,925	221,381	(33)
Operating income ⁽¹⁾	5,187	37,744	(86)
Operating income (%)	3.4	14.6	(77)
Fracturing revenue per job (\$)	28,366	50,806	(44)
Number of fracturing jobs	5,433	5,095	7
Active pumping horsepower, end of period (000s)	802	858	(7)
Idle pumping horsepower, end of period (000s)	126	31	NM
Total pumping horsepower, end of period (000s)	928	889	4
Active coiled tubing units, end of period (#)	—	—	—
Idle coiled tubing units, end of period (#)	1	2	(50)
Total coiled tubing units, end of period (#)	1	2	(50)
Active cementing units, end of period (#)	—	—	—
Idle cementing units, end of period (#)	2	10	(80)
Total cementing units, end of period (#)	2	10	(80)
US\$/C\$ average exchange rate ⁽²⁾	1.3449	1.3295	1

(1) Refer to "Non-GAAP Measures" on pages 17 and 18 for further information.

(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to \$154.1 million during the first quarter of 2020 from \$259.1 million in the comparable quarter of 2019. The significant decrease in revenue can be attributed to a combination of a 44 percent decrease in revenue per job, offset partially by a 7 percent increase in the number of fracturing jobs completed period-over-period. The significant decrease in revenue per job was primarily due to the impact of a substantial shift to customers providing their own sand, combined with lower pricing in all operating areas. The 7 percent increase in activity was driven by a change in customer mix in San Antonio which resulted in more jobs completed at a significantly lower revenue per stage, while North Dakota did not have the same weather related delays that it experienced in the first quarter of 2019. Calfrac's Pennsylvania and Colorado operations completed fewer jobs period-over-period due to a smaller operating footprint in those areas, combined with customers providing their own sand in the first quarter in 2020. Activity in Artesia was relatively consistent compared to the same period of 2020; however, a greater proportion of its customers provided their own sand during the first quarter in 2020.

OPERATING INCOME

The Company's United States operations generated operating income of \$5.2 million during the first quarter of 2020 compared to \$37.7 million in the same period in 2019. The comparative decline in operating results was due to a combination of lower pricing, customer mix and a large increase in the number of customers providing their own sand. Activity in the Company's gas-focused operating areas was significantly lower compared to the same period in 2019 as customers reduced completions programs due to low North American gas pricing. The Company responded by reducing its operating footprint in these areas. The Company's oil-focused operating areas started the quarter with strong activity levels, however, lower pricing in these areas and a change in customer mix resulted in lower profitability during the quarter. The Company recorded \$0.6 million of restructuring charges relating to its United States operations during the first quarter in 2019. SG&A expenses decreased by 10 percent primarily due to lower personnel costs.

RUSSIA

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	20,991	29,078	(28)
Expenses			
Operating	22,250	30,866	(28)

SG&A	1,039	988	5
	23,289	31,854	(27)
Operating loss ⁽¹⁾	(2,298)	(2,776)	(17)
Operating loss (%)	(10.9)	(9.5)	15
Fracturing revenue per job (\$)	102,408	89,290	15
Number of fracturing jobs	179	290	(38)
Active pumping horsepower, end of period (000s)	65	77	(16)
Idle pumping horsepower, end of period (000s)	12	—	NM
Total pumping horsepower, end of period (000s)	77	77	—
Coiled tubing revenue per job (\$)	46,667	43,618	7
Number of coiled tubing jobs	57	73	(22)
Active coiled tubing units, end of period (#)	3	5	(40)
Idle coiled tubing units, end of period (#)	4	2	100
Total coiled tubing units, end of period (#)	7	7	—
Rouble/C\$ average exchange rate ⁽²⁾	0.0202	0.0202	—

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 17 and 18 for further information

⁽²⁾ Source: Bank of Canada

REVENUE

Revenue from Calfrac's Russian operations decreased by 28 percent during the first quarter of 2020 to \$21.0 million from \$29.1 million in the corresponding three-month period of 2019. The decrease in revenue was attributable to lower activity with its primary customer in Khanty-Mansiysk as warmer than normal weather during the quarter restricted access to job locations. Revenue per fracturing job increased by 15 percent primarily due to sand being provided by Calfrac for all of its jobs, while the comparable period included some jobs where sand was provided by customers. Coiled tubing activity decreased by 22 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING LOSS

The Company's Russian division generated an operating loss of \$2.3 million during the first quarter of 2020 versus a loss of \$2.8 million in the comparable quarter in 2019. The negative operating result was primarily due to lower than expected utilization as the first quarter experienced lower field activity for both fracturing and coiled tubing services due to weather-related access issues.

ARGENTINA

Three Months Ended March 31,	2020	2019	Change
(C\$000s, except operational and exchange rate information)	(\$)	(\$)	(%)
(unaudited)			
Revenue	25,793	55,414	(53)
Expenses			
Operating	24,949	48,486	(49)
SG&A	2,476	2,073	19
	27,425	50,559	(46)
Operating (loss) income ⁽¹⁾	(1,632)	4,855	NM
Operating (loss) income (%)	(6.3)	8.8	NM
Active pumping horsepower, end of period (000s)	138	108	28
Idle pumping horsepower, end of period (000s)	—	—	—
Total pumping horsepower, end of period (000s)	138	108	28
Active cementing units, end of period (#)	13	11	18
Idle cementing units, end of period (#)	1	2	(50)
Total cementing units, end of period (#)	14	13	8
Active coiled tubing units, end of period (#)	6	5	20
Idle coiled tubing units, end of period (#)	—	1	(100)
Total coiled tubing units, end of period (#)	6	6	—
US\$/C\$ average exchange rate ⁽²⁾	1.3449	1.3295	1

⁽¹⁾ Refer to "Non-GAAP Measures" on pages 17 and 18 for further information

⁽²⁾ Source: Bank of Canada

REVENUE

Calfrac's Argentinean operations generated total revenue of \$25.8 million during the first quarter of 2020 compared to \$55.4 million in the comparable quarter in 2019. This 53 percent decline in revenue was primarily due to a slow down of activity resulting from the change in government during the fourth quarter of 2019 and the impact of the COVID-19 pandemic shutdown in March. As operations ramped up during the first quarter, a small number of program-specific delays resulted in some significant gaps in activity in the Vaca Muerta region. In mid-March, the Argentina government mandated a complete shutdown of all oilfield activity in response to the COVID-19 pandemic. As a result of these factors, fracturing activity decreased by 29 percent while revenue per job decreased by 48 percent as a result of the change in customer mix. Cementing revenue increased by \$2.9 million from the comparable period mainly due to a slight increase in activity and the completion of larger jobs.

OPERATING (LOSS) INCOME

The Company's operations in Argentina incurred an operating loss of \$1.6 million during the first quarter of 2020 compared to operating income \$4.9 million in the comparable quarter of 2019. The operating loss was due to the lower revenue base in the quarter and the sudden shutdown of operations as a result of the COVID-19 pandemic which did not allow for any meaningful cost reductions.

CORPORATE

Three Months Ended March 31,	2020	2019	Change
(C\$000s)	(\$)	(\$)	(%)
(unaudited)			
Expenses			
Operating	1,126	1,451	(22)
SG&A	6,408	8,475	(24)
	7,534	9,926	(24)

Operating loss ⁽¹⁾	(7,534)	(9,926)	(24)
% of Revenue	2.5	2.1	19

(1) Refer to "Non-GAAP Measures" on pages 17 and 18 for further information

OPERATING LOSS

Corporate expenses for the first quarter of 2020 were \$7.5 million compared to \$9.9 million in the first quarter of 2019. The decrease was primarily due to lower stock-based compensation of \$1.7 million mainly due to a lower share price. In addition, headcount reductions completed in the fourth quarter in 2019 resulted in lower personnel costs during the first quarter of 2020, offset partially by \$0.2 million in restructuring costs recorded during the quarter.

DEPRECIATION

For the three months ended March 31, 2020, depreciation expense decreased by \$8.8 million to \$63.3 million from \$72.1 million in the corresponding quarter of 2019. The decrease was primarily due to the one-time depreciation charge of \$9.5 million recorded during the first quarter in 2019 resulting from the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. This was partially offset by higher depreciation on disposals of components during the first quarter in 2020.

FOREIGN EXCHANGE GAINS AND LOSSES

The Company recorded a foreign exchange gain of \$0.1 million during the first quarter of 2020 versus a loss of \$0.5 million in the comparative three-month period of 2019. 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.

IMPAIRMENT

The Company tested each of its cash generating units (CGU) for potential impairment at March 31, 2020. During the first quarter of 2020, the global economy slowed significantly due to the worldwide COVID-19 pandemic, and the Saudi Arabia–Russia oil price war further decreased oil prices. A comparison of the recoverable amounts of each CGU with their respective carrying amounts resulted in an impairment of the Company's Canadian CGU of \$37.7 million in the first quarter of 2020 (2019 – \$nil) and no impairment in any of its other CGUs as at March 31, 2020. Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of \$15.8 million for the three months ended March 31, 2020 (three months ended March 31, 2019 – \$nil).

INTEREST

The Company's net interest expense of \$26.0 million for the first quarter of 2020 was \$4.8 million higher than the comparable period in 2019. The increase in interest expense was due to the write-off of \$4.4 million of deferred finance costs related to the portion of old notes exchanged during the quarter. The remaining increase was due to higher credit facility borrowings and a slightly higher average interest rate on such borrowings.

INCOME TAXES

The Company recorded an income tax expense of \$114.1 million during the first quarter of 2020 compared to a recovery of \$13.4 million in the comparable period of 2019. The expense position was the result of the write-off of the Company's deferred tax asset, which resulted in a deferred tax expense of \$115.6 million.

LIQUIDITY AND CAPITAL RESOURCES

(C\$000s) (unaudited)	Three Months Ended March 31,	
	2020	2019
	(\$)	(\$)
Cash provided by (used in):		
Operating activities	(46,339)	72,748
Financing activities	19,332	(26,538)
Investing activities	(25,856)	(35,825)
Effect of exchange rate changes on cash and cash equivalents	7,304	(2,122)
(Decrease) increase in cash and cash equivalents	(45,559)	8,263

OPERATING ACTIVITIES

The Company's cash used by operating activities for the three months ended March 31, 2020 was \$46.3 million versus cash provided of \$72.7 million during the same period in 2019. The decrease in cash provided by operations was primarily due to lower activity and pricing in North America combined with a \$44.0 million use of working capital during the first three months of 2020 compared to working capital providing \$31.9 million of cash in the same period in 2019. The use of working capital in the first quarter of 2020 was mainly due to the timing of payments from customers. At March 31, 2020, Calfrac's working capital was \$233.1 million compared to \$248.8 million at December 31, 2019.

FINANCING ACTIVITIES

Net cash provided by financing activities for the three months ended March 31, 2020 was \$19.3 million compared to net cash used of \$26.5 million in the comparable period in 2019. During the three months ended March 31, 2020, the Company had net borrowings under its credit facilities of \$24.3 million and lease principal payments of \$4.9 million.

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

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at \$375.0 million. The facilities consist of an operating facility of \$40.0 million and a syndicated facility of \$335.0 million. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 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 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at \$100.0 million, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above 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, certain restrictions apply including the following: (a) acquisitions are subject to majority lender consent; (b) distributions are restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends

are permitted. As at March 31, 2020, the Company's net Total Debt to Adjusted EBITDA ratio was 9.74:1.00.

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

- i 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;
- ii 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii 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 March 31, 2020, the Company had used \$0.9 million of its credit facilities for letters of credit and had \$180.5 million of borrowings under its credit facilities, and \$3.0 million of bank overdraft, leaving \$190.6 million in available capacity under its credit facilities. As described above, the Company's credit facilities are subject to a monthly borrowing base, as determined using the previous month's results, which at March 31, 2020 resulted in a liquidity amount of \$69.2 million.

The Company's credit facilities contain certain financial covenants. As shown in the table below, at March 31, 2020, the Company was in compliance with the financial covenants associated with its credit facilities.

As at December 31,	<u>Covenant</u> Actual	
	2020	2020
Working capital ratio not to fall below	1.15x	2.87x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	3.00x	1.94x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.16x

⁽¹⁾ *Funded Debt is defined as Total Debt excluding all outstanding senior unsecured 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 the purposes of 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*

Given the wide range of possible outcomes and scenarios resulting from the combination of the COVID-19 pandemic's impact on demand and the supply response relating to the OPEC–Russia agreement on crude oil production cuts, the Company has very limited insight on the economic conditions that will exist during the remainder of 2020. The pervasive impact and influence of these factors have a direct correlation with the Company's customers' capital spending plans and, as a result, the demand for the Company's services.

Management's internal forecasts currently indicate a potential breach of the Company's Funded Debt to EBITDA covenant under its credit facilities following the release of its third-quarter results, which are typically filed in accordance with applicable securities laws in mid-November. Should that occur, it would represent an event of default which carries the risk that the Company's banking syndicate may demand immediate repayment of all amounts due under its credit facilities. Additionally, subsequent to the end of the first quarter, the Company elected to defer its cash interest payment that was due on June 15, 2020 in respect of its outstanding 8.50% senior unsecured notes due 2026. Under the terms of the unsecured notes indenture, the Company has a 30-day grace period from the periodic interest payment date of June 15 in order to make this cash interest payment before an event of default will occur. The Company has both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place. The Company has retained financial advisors and will use this grace period to address its capital structure.

As a result of the factors noted above, there are material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern entity. Such material uncertainties may include: customer credit risk, compliance with financial covenants in future periods, liquidity, capital structure, valuation of long-lived assets and inventory valuation.

The Company is engaged in ongoing discussions with its banking syndicate in respect of the alternatives under consideration for addressing the Company's balance sheet. Although no agreement has been reached in respect of any amendments to the credit facilities, the banking syndicate is supportive of the proactive measures the Company has taken to address the rapid and unforeseen deterioration in 2020 business conditions. Measures taken include significant headcount reductions, salary reductions, restriction of discretionary spending, elimination of compensation programs and bonuses, and reduction in capital spending. The Company continues to provide its services throughout its global operating footprint to a well-established customer base.

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, 2022, 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

The Company can utilize two equity cures during the term of the credit facilities subject to the conditions described above. 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, 2022 will increase Adjusted EBITDA over the relevant twelve-month rolling period and will also serve to reduce Funded Debt.

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. 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.

The indentures governing the senior unsecured notes and second lien secured 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 a builder basket 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 indenture 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, provision for settlement of litigation, 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. As at March 31, 2020 this basket was not utilized. The indentures also restricts 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, including the incurrence of additional debt under credit facilities up to the greater of \$375.0 million or 30 percent of the Company's consolidated tangible assets plus a general basket equal to the greater of 4 percent of consolidated tangible assets and US\$60.0 million.

As at March 31, 2020, the Company's Fixed Charge Coverage Ratio of 1.44:1 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 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 \$25.9 million for the three months ended March 31, 2020 versus \$35.8 million in the comparable period in 2019. Cash outflows relating to capital expenditures were \$26.8 million in 2020 compared to \$33.0 million in 2019. In response to lower expected activity levels, the Company reduced its 2020 capital budget from \$100.5 million to 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 March 31, 2020 was a loss of \$7.3 million versus a gain of \$2.1 million in the same period in 2019. These gains and losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

With its working capital position, available credit facilities and anticipated funds provided by operations, the Company expects to have adequate resources to fund its financial obligations and planned capital expenditures for 2019 and beyond.

At March 31, 2020, the Company had a bank overdraft of \$3.0 million which was mainly due to the timing of collections from customers in North America.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted both performance share units as well as options to purchase common shares under the Company's shareholder-approved equity compensation plans. The number of shares reserved for issuance under the performance share unit plan and stock option plan is equal to 10 percent of the Company's issued and outstanding common shares. As at June 24, 2020, the Company had issued and outstanding 145,171,194 common shares, 892,839 equity-based performance share units and 10,072,003 options to purchase common shares.

SUMMARY OF QUARTERLY RESULTS

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Three Months Ended	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020
<i>(C\$000s, except per share and operating data)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>								
Financial								
Revenue	544,602	630,128	498,858	475,012	429,638	399,220	317,085	305,515
Operating income ⁽¹⁾	66,528	115,331	61,992	43,623	41,103	47,021	20,997	5,698
Per share – basic	0.46	0.80	0.43	0.30	0.28	0.33	0.15	0.04
Per share – diluted	0.45	0.79	0.42	0.30	0.28	0.32	0.14	0.04
Adjusted EBITDA ⁽¹⁾	81,910	111,631	62,914	44,086	45,123	43,028	26,882	6,812
Per share – basic	0.57	0.77	0.44	0.31	0.31	0.30	0.19	0.05
Per share – diluted	0.56	0.76	0.43	0.30	0.31	0.30	0.18	0.05
Net income (loss)	(32,838)	14,878	(3,462)	(36,334)	(41,045)	(29,424)	(49,400)	(122,857)
Per share – basic	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)
Per share – diluted	(0.23)	0.10	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)
Capital expenditures	42,404	34,542	31,484	28,218	37,784	38,885	34,418	29,283
Working capital (end of period)	361,613	386,843	329,871	276,785	291,056	257,189	248,772	233,125
Total equity (end of period)	507,607	516,899	513,820	481,675	443,361	414,195	368,623	239,099

Operating (end of period)

Active pumping horsepower (000s)	1,313	1,344	1,328	1,344	1,346	1,337	1,269	1,242
Idle pumping horsepower (000s)	80	49	42	36	59	72	141	174
Total pumping horsepower (000s)	1,393	1,393	1,370	1,380	1,405	1,409	1,410	1,416
Active coiled tubing units (#)	22	22	22	21	21	21	20	20
Idle coiled tubing units (#)	8	8	7	8	8	8	8	7
Total coiled tubing units (#)	30	30	29	29	29	29	28	27
Active cementing units (#)	11	11	11	11	14	14	13	13
Idle cementing units (#)	12	12	12	12	9	9	6	3
Total cementing units (#)	23	23	23	23	23	23	19	16

(1) With the adoption of IFRS 16, the accounting treatment for operating leases when Calfrac is the lessee, changed effective January 1, 2019. Calfrac adopted IFRS 16 using the modified retrospective approach and the comparative information was not restated. As a result, the Company's Operating Income and Adjusted EBITDA in subsequent periods are not comparable to periods prior to January 1, 2019. Refer to "Non-GAAP Measures" on pages 17 and 18 for further information

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 2019 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 2019 Annual Report).

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 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 indenture pursuant to which its senior notes were issued, and its ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events (including exposure 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 effect unconventional gas projects have had on supply and demand fundamentals for natural gas 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: excess oilfield equipment levels; regional competition; the availability of capital on satisfactory terms; restrictions resulting from compliance with debt covenants and risk of acceleration of indebtedness; direct and indirect exposure to volatile credit markets, including credit rating risk; currency exchange rate risk; risks associated with foreign operations; 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; 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 and risks associated with prior operations; failure to maintain the Company's safety standards and record; failure to realize anticipated benefits of acquisitions and dispositions; the ability to integrate technological advances and match advances from competitors; intellectual property risks; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; and the effect of accounting pronouncements issued periodically. 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 are 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 411 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E3, or at www.calfrac.com, or by facsimile at 403-266-7381.

NON-GAAP MEASURES

Certain supplementary measures presented in this MD&A 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, impairment of inventory, impairment of property, plant and equipment, 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. In addition, management believes this measure allows investors to more accurately compare the Company's performance with its peers by providing an indication of its financial results prior to consideration of the age or size of its asset base, or the investment and accounting policies associated with its assets. Operating income (loss) for the period was calculated as follows:

Three Months Ended March 31,	2020	2019
(C\$000s)	(\$)	(\$)
(unaudited)		
Net loss	(122,857)	(36,334)
Add back (deduct):		
Depreciation	63,263	72,136
Foreign exchange (gains) losses	(90)	513
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment	53,524	—
Impairment of other assets	507	—
Gain on exchange of debt	(130,444)	—
Interest	26,043	21,230
Income taxes	114,083	(13,449)
Operating income	5,698	43,623

Adjusted EBITDA is defined as net income or loss for the period less interest, 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 gives an indication of the results from the Company's principal business activities prior to consideration of how its activities are financed and the impact of foreign exchange, taxation and depreciation and amortization charges. Adjusted EBITDA for the period was calculated as follows:

Three Months Ended March 31,	2020	2019
(C\$000s)		
(unaudited)		
Net loss	(122,857)	(36,334)
Add back (deduct):		
Depreciation	63,263	72,136
Unrealized foreign exchange (gains) losses	(2,280)	144
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment	53,524	—
Impairment of other assets	507	—
Gain on exchange of debt	(130,444)	—
Restructuring charges	2,621	20
Stock-based compensation	683	812
Interest	26,043	21,230
Income taxes	114,083	(13,449)
Adjusted EBITDA	6,812	44,086

⁽¹⁾ For bank covenant purposes, EBITDA includes an additional \$5.5 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.

FIRST QUARTER CONFERENCE CALL

Calfrac will be conducting a conference call for interested analysts, brokers, investors and news media representatives to review its 2020 first-quarter results at 10:00 a.m. (Mountain Time) on Thursday, June 25, 2020. 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 1967529). A webcast of the conference call may be accessed via the Company's website at www.calfrac.com.

CONSOLIDATED BALANCE SHEETS

	March 31, 2020	December 31, 2019
(C\$000s) (unaudited)	(\$)	(\$)
ASSETS		
Current assets		
Cash and cash equivalents	—	42,562
Accounts receivable	232,046	216,647
Income taxes recoverable	1,727	1,608
Inventories	127,451	127,620
Prepaid expenses and deposits	15,269	17,489
	376,493	405,926
Non-current assets		
Property, plant and equipment (note 3)	941,280	969,944
Right-of-use assets	37,151	29,760
Deferred income tax assets	—	120,292
Total assets	1,354,924	1,525,922
LIABILITIES AND EQUITY		
Current liabilities		
Bank overdraft	2,997	—
Accounts payable and accrued liabilities	128,394	143,225

Current portion of lease obligations	11,977	13,929
	143,368	157,154
Non-current liabilities		
Long-term debt (note 4)	947,452	976,693
Lease obligations	25,005	16,990
Deferred income tax liabilities	—	6,462
Total liabilities	1,115,825	1,157,299
Capital stock (note 5)	510,510	509,235
Contributed surplus	43,724	44,316
Loan receivable for purchase of common shares	(2,500)	(2,500)
Accumulated deficit	(308,031)	(185,174)
Accumulated other comprehensive (loss) income	(4,604)	2,746
Total equity	239,099	368,623
Total liabilities and equity	1,354,924	1,525,922

Going Concern (note 1)

Contingencies (note 8)

See accompanying notes to the interim condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended March 31,	2020	2019
(C\$000s, except per share data) (unaudited)	(\$)	(\$)
Revenue	305,515	475,012
Cost of sales	346,010	484,321
Gross loss	(40,495)	(9,309)
Expenses		
Selling, general and administrative	17,070	19,204
Foreign exchange (gains) losses	(90)	513
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment (note 3)	53,524	—
Impairment of other assets	507	—
Gain on exchange of debt (note 4)	(130,444)	—
Interest	26,043	21,230
	(31,721)	40,474
Loss before income tax	(8,774)	(49,783)
Income tax expense (recovery) (note 2)		
Current	57	1,645
Deferred	114,026	(15,094)
	114,083	(13,449)
Net loss	(122,857)	(36,334)

Loss per share (note 5)

Basic	(0.85)	(0.25)
Diluted	(0.85)	(0.25)

See accompanying notes to the interim condensed consolidated financial statements

Certain of the comparatives have been reclassified to conform with the current presentation (note 2b)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three Months Ended March 31,	2020	2019
(C\$000s) (unaudited)	(\$)	(\$)
Net loss	(122,857)	(36,334)
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit or loss:		
Change in foreign currency translation adjustment	(7,350)	3,353
Comprehensive loss	(130,207)	(32,981)

See accompanying notes to the interim condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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	Share Capital	Contributed Surplus	Loan Receivable for Purchase of Common Shares	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Equity
(C\$000s) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance – January 1, 2020	509,235	44,316	(2,500)	2,746	(185,174)	368,623
Net loss	—	—	—	—	(122,857)	(122,857)
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	(7,350)	—	(7,350)
Comprehensive loss	—	—	—	(7,350)	(122,857)	(130,207)
Stock options:						
Stock-based compensation recognized	—	499	—	—	—	499
Performance share units:						
Stock-based compensation recognized	—	184	—	—	—	184

Shares issued (note 5)	1,275	(1,275)	—	—	—	—
Balance – March 31, 2020	510,510	43,724	(2,500)	(4,604)	(308,031)	239,099
Balance – January 1, 2019	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820
Net loss	—	—	—	—	(36,334)	(36,334)
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	3,353	—	3,353
Comprehensive income (loss)	—	—	—	3,353	(36,334)	(32,981)
Stock options:						
Stock-based compensation recognized	—	611	—	—	—	611
Proceeds from issuance of shares (note 5)	32	(7)	—	—	—	25
Performance share units:						
Stock-based compensation recognized	—	200	—	—	—	200
Shares issued (note 5)	707	(707)	—	—	—	—
Balance – March 31, 2019	509,015	40,550	(2,500)	(85)	(65,305)	481,675

See accompanying notes to the interim condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31,	2020	2019
(C\$000s) (unaudited)	(\$)	(\$)
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss	(122,857)	(36,334)
Adjusted for the following:		
Depreciation	63,263	72,136
Stock-based compensation	683	812
Unrealized foreign exchange (gains) losses	(2,280)	144
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment (note 3)	53,524	—
Impairment of other assets	507	—
Gain on exchange of debt (note 4)	(130,444)	—
Interest	26,043	21,230
Interest paid	(6,468)	(1,573)
Deferred income taxes	114,026	(15,094)
Changes in items of working capital	(44,005)	31,900
Cash flows (used in) provided by operating activities	(46,339)	72,748
FINANCING ACTIVITIES		
Issuance of long-term debt, net of debt issuance costs	24,258	(1,192)
Long-term debt repayments	—	(20,000)
Lease obligation principal repayments	(4,926)	(5,371)
Proceeds on issuance of common shares	—	25
Cash flows provided by (used in) financing activities	19,332	(26,538)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(26,813)	(33,013)
Proceeds on disposal of property, plant and equipment	649	(2,812)
Proceeds on disposal of right-of-use assets	308	—
Cash flows used in investing activities	(25,856)	(35,825)
Effect of exchange rate changes on cash and cash equivalents	7,304	(2,122)
(Decrease) increase in cash and cash equivalents	(45,559)	8,263
Cash and cash equivalents, beginning of period	42,562	51,901
(Bank overdraft) cash and cash equivalents, end of period	(2,997)	60,164

See accompanying notes to the interim condensed consolidated financial statements

Certain of the comparatives have been reclassified to conform with the current presentation (note 2b)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2020 and 2019

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

1. GOING CONCERN

These interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business as they become due. The global economy has been significantly slowed by the COVID-19 pandemic, as reflected in the volatile financial markets. This has resulted in significant demand destruction for crude oil and related hydrocarbons. In addition, the delayed response by the OPEC+ group to an oversupply of crude oil on a global basis has caused further damage to global oil markets which, in turn, has negatively impacted the overall oil and gas industry and the Company's first quarter results and near-term outlook.

At March 31, 2020, the Company was in full compliance with the financial covenants under its credit facilities. Given the wide range of possible outcomes and scenarios resulting from the combination of the COVID-19 pandemic's impact on demand and the supply response relating to the OPEC–Russia agreement on crude oil production cuts, the Company has very limited insight on the economic conditions that will exist during the remainder of 2020. The pervasive impact and influence of these factors have a direct correlation with the Company's customers' capital spending plans and, as a result, the demand for the Company's services.

Management's internal forecasts currently indicate a potential breach of the Company's Funded Debt to EBITDA covenant under its credit facilities following the release of its third-quarter results, which are typically filed in accordance with applicable securities laws in mid-November. Should that occur, it would represent an event of default which carries the risk that the Company's banking syndicate may demand immediate repayment of all amounts due under its credit facilities. Additionally, subsequent to the end of the first quarter, the Company elected to defer its cash interest payment

that was due on June 15, 2020 in respect of its outstanding 8.50% senior unsecured notes due 2026. Under the terms of the unsecured notes indenture, the Company has a 30-day grace period from the periodic interest payment date of June 15 in order to make this cash interest payment before an event of default will occur. The Company has both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place. The Company has retained financial advisors and will use this grace period to address its capital structure.

As a result of the factors noted above, there are material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern entity. Such material uncertainties may include: customer credit risk, compliance with financial covenants in future periods, liquidity, capital structure, valuation of long-lived assets and inventory valuation.

The Company is engaged in ongoing discussions with its banking syndicate in respect of the alternatives under consideration for addressing the Company's balance sheet. Although no agreement has been reached in respect of any amendments to the credit facilities, the banking syndicate is supportive of the proactive measures the Company has taken to address the rapid and unforeseen deterioration in 2020 business conditions. Measures taken include significant headcount reductions, salary reductions, restriction of discretionary spending, elimination of compensation programs and bonuses, and reduction in capital spending. The Company continues to provide its services throughout its global operating footprint to a well-established customer base.

These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

(a) Changes in Accounting Estimates

Depreciation of the Company's property, plant and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby affecting the value of the Company's property, plant and equipment.

Effective January 1, 2019, the Company revised its useful life depreciation estimate and salvage value for certain of its components relating to field equipment. This change was adopted as a change in accounting estimate on a prospective basis, which resulted in a one-time depreciation charge of \$9,540 to the statement of operations recorded in the first quarter of 2019.

(b) Changes in Accounting Policies

Effective April 1, 2019, the Company revised its policy regarding the derecognition of major components relating to field equipment. The revised policy states that the remaining carrying value of major components derecognized prior to reaching their estimated useful life will be recorded through depreciation on the statement of operations, rather than loss on disposal of property, plant and equipment. This change in presentation is a more appropriate classification of the derecognition of major components, indicating accelerated depreciation for components that were derecognized prior to reaching their estimated useful life.

The change in accounting policy was adopted on a retrospective basis, with each prior period presented in the statements of operations being restated to reflect the change. The change in policy resulted in a reclassification of loss on disposal of property, plant and equipment to depreciation expense on the statement of operations of \$10,608 for the three months ended March 31, 2019.

(c) Income Taxes

For purposes of calculating income taxes during interim periods, the Company utilizes estimated annualized income tax rates. Current income tax expense is only recognized when taxable income is such that current income tax becomes payable. During the three months ended March 31, 2020, the Company derecognized its net deferred tax asset totaling \$113,830 after assessing the utilization of available tax losses based on estimates of the Company's future taxable income.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tested for impairment in accordance with the Company's accounting policy. The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. The Company's financial results have been negatively impacted by global economic events such as the OPEC+ crude oil supply war, the COVID-19 pandemic and the related global response to the COVID-19 demand reductions for crude oil. The Company recognizes this is an indicator of impairment that warrants an assessment on the recoverable amount of its property, plant and equipment.

The Company's CGUs are determined to be at the country level, consisting of Canada, the United States, Russia and Argentina.

The recoverable amount of property, plant and equipment was determined using the value in use method, based on multi-year discounted cash flows to be generated from the continuing operations of each CGU. Cash flow assumptions were based on a combination of historical and expected future results, using the following main key assumptions:

- Commodity price forecasts
- Expected revenue growth
- Expected operating income growth
- Discount rate

Revenue and operating income growth rates for each CGU were based on a combination of commodity price assumptions, historical results and forecasted activity levels, which incorporated pricing, utilization and cost improvements over the period. The cumulative annual growth rates for revenue over the forecast period from 2020 to 2024 ranged from 3.5 percent to 30.8 percent depending on the CGU.

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.8 percent to 21.9 percent depending on the CGU. Discount rates are derived from the Company's weighted average cost of capital, adjusted for risk factors specific to each CGU. Cash flows beyond that five-year period have been extrapolated using a steady 2.0 percent growth rate.

A comparison of the recoverable amounts of each cash-generating unit with their respective carrying amounts resulted in an impairment charge against property, plant and equipment of \$37,770 for the Canadian CGU for the three months ended March 31, 2020 (three months ended March 31, 2019 – \$nil).

A sensitivity analysis on the discount rate and expected future cash flows would have the following impact:

	Impairment			
	Canada	United States	Russia	Argentina
(C\$000s)	(\$)	(\$)	(\$)	(\$)
10% increase in expected future cash flows	12,352	None	None	None
10% decrease in expected future cash flows	63,188	None	None	None
1% decrease in discount rate	28,567	None	None	None
1% increase in discount rate	46,551	None	None	None

Assumptions that are valid at the time of preparing the impairment test at March 31, 2020 may change significantly when new information becomes available. The Company will continue to monitor and update its assumptions and estimates with respect to property, plant and equipment impairment on an ongoing basis.

Furthermore, the Company carried out a comprehensive review of its property, plant and equipment and identified assets that were permanently idle or obsolete, and therefore, no longer able to generate cash inflows. These assets were written down to their recoverable amount resulting in an impairment charge of \$15,754 for the three months ended March 31, 2020 (three months ended March 31, 2019 – \$nil).

The impairment losses by CGU are as follows:

Three Months Ended March 31,	2020	2019
(C\$000s)	(\$)	(\$)
Canada	38,144	—
United States	15,380	—
	53,524	—

4. LONG-TERM DEBT

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	March 31, 2020	December 31, 2019
(C\$000s)	(\$)	(\$)
US\$431,818 senior unsecured notes (December 31, 2019 – US\$650,000) due June 15, 2026, bearing interest at 8.50% payable semi-annually	612,620	844,220
US\$120,000 second lien senior 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	170,244	—
\$375,000 extendable revolving term loan facility, secured by Canadian and U.S. assets of the Company	180,467	147,988
Less: unamortized debt issuance costs	(15,879)	(15,515)
	947,452	976,693

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at March 31, 2020, was \$46,596 (December 31, 2019 – \$342,078). The fair value of the second lien senior notes, as measured based on the closing market price at March 31, 2020 was \$103,142 (December 31, 2019 – not applicable). The carrying value of the revolving term loan facility approximates its fair value as the interest rate is not significantly different from current interest rates for similar loans.

On February 24, 2020, the Company completed an exchange offer of US\$120,000 of new 10.875% second lien secured notes ("New Notes") due March 15, 2026 to holders of its existing 8.50% senior unsecured notes ("Old Notes") due June 15, 2026. The New Notes are secured by a second lien on the same assets that secure obligations under the Company's existing senior secured credit facility. The exchange was completed at an average exchange price of US\$550 per each US\$1,000 of Old Notes resulting in US\$218,182 being exchanged for US\$120,000 of New Notes, resulting in a non-cash gain on exchange of debt of \$130,444.

On April 30, 2019, Calfrac amended and extended its credit facilities while maintaining its total facility capacity at \$375,000. The facilities consist of an operating facility of \$40,000 and a syndicated facility of \$335,000. The Company's credit facilities were extended by a term of two years and mature on June 1, 2022 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 0.50 percent to prime plus 2.50 percent. For LIBOR-based loans and bankers' acceptance-based loans, the margin thereon ranges from 1.50 percent to 3.50 percent above the respective base rates. The accordion feature of the syndicated facility remains at \$100,000, and is available to the Company during the term of the agreement. The Company incurs interest at the high end of the ranges outlined above 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, certain restrictions would apply including the following: (a) acquisitions will be subject to majority lender consent; (b) distributions will be restricted other than those relating to the Company's share unit plans; and (c) no increase in the rate of dividends will be permitted. As at March 31, 2020, the Company's net Total Debt to Adjusted EBITDA ratio was 9.74:1.00 (December 31, 2019 – 6.96:1.00).

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 three months ended March 31, 2020 was \$25,448 (three months ended March 31, 2019 – \$20,726).

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

	2019
(C\$000s)	(\$)
Balance, January 1	976,693
Issuance of long-term debt, net of debt issuance costs	24,258
Long-term debt repayments	—
Gain on exchange of debt	(130,444)
Amortization of debt issuance costs and debt discount	6,508
Foreign exchange adjustments	70,437
Balance, March 31	947,452

At March 31, 2020, the Company had utilized \$922 of its loan facility for letters of credit, had \$180,467 outstanding under its revolving term loan facility and \$2,997 of bank overdraft, leaving \$190,614 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at March 31, 2020, resulted in liquidity amount of \$69,177.

See note 7 for further details on the covenants in respect of the Company's long-term debt. See note 1 and 10 for further details regarding the Company's senior unsecured notes.

5. CAPITAL STOCK

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

	Three Months Ended		Year Ended	
	March 31, 2020		December 31, 2019	
Continuity of Common Shares	Shares Amount		Shares Amount	
	(#)	(\$000s)	(#)	(\$000s)
Balance, beginning of period	144,888,888	506,735	144,462,532	504,526
Issued upon exercise of stock options	—	—	98,675	252
Issued upon vesting of performance share units	282,306	1,275	104,865	707
Issued on acquisition	—	—	222,816	1,250
Balance, end of period	145,171,194	508,010	144,888,888	506,735
Shares to be issued	445,633	2,500	445,633	2,500
	145,616,827	510,510	145,334,521	509,235

The weighted average number of common shares outstanding for the three months ended March 31, 2020 was 144,941,175 basic and 145,556,268 diluted (three months ended March 31, 2019 – 144,404,051 basic and 146,238,510 diluted). The difference between basic and diluted shares is attributable to the dilutive effect of stock options issued by the Company as disclosed in note 6.

6. SHARE-BASED PAYMENTS

(a) Stock Options

Continuity of Stock Options	Three Months Ended March 31, 2020		2019	
	Options	Average Exercise Price	Options	Average Exercise Price
	(#)	(\$)	(#)	(\$)
Balance, January 1	12,203,008	3.16	9,392,095	4.70
Granted	24,900	1.05	1,542,000	2.48
Exercised for common shares	—	—	(12,425)	1.99
Forfeited	(198,108)	2.91	(239,401)	3.94
Expired	(57,100)	8.37	(5,200)	18.02
Balance, March 31	11,972,700	3.14	10,677,069	4.39

Stock options vest equally over three to four years and expire five years from the date of grant. The exercise price of outstanding options range from \$0.37 to \$8.72 with a weighted average remaining life of 2.57 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 2020, determined using the Black-Scholes valuation method, was \$0.43 per option (three months ended March 31, 2019 – \$1.02 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Three Months Ended March 31,	2020	2019
Expected life (years)	3.00	3.00
Expected volatility	66.11%	59.83%
Risk-free interest rate	1.08%	1.75%
Expected dividends	\$0.00	\$0.00

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

(b) Share Units

Continuity of Stock Units	Three Months Ended March 31, 2020		2019	
	Deferred Share Units	Performance Share Units	Deferred Share Units	Restricted Share Units
	(#)	(#)	(#)	(#)
Balance, January 1	145,000	1,294,564	145,000	3,139,150
Granted	105,000	986,144	145,000	—
Exercised	—	(282,306)	(145,000)	(1,998,600)
Forfeited	—	(158,503)	—	(54,700)
Balance, March 31	250,000	1,839,899	145,000	1,085,850

Three Months Ended March 31,	2020	2019
	(\$)	(\$)
Expense (recovery) from:		
Stock options	499	611
Deferred share units	(127)	112
Performance share units	184	765
Restricted share units	—	783
Total stock-based compensation expense	556,271	

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

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 March 31, 2020, the liability pertaining to deferred share units was \$39 (December 31, 2019 – \$166).

The Company grants performance share units to its employees. These performance share units contain a cash-based component and an equity-based component. The cash-based component vests over three years based on corporate financial performance thresholds and are settled either in cash (equal to the market value of the underlying shares at the time of vesting) or in Company shares purchased on the open market. The equity-based component vests over three years without any further conditions and are settled in treasury shares issued by the Company. At March 31, 2020, the liability pertaining to the cash-based component of performance share units was \$nil (December 31, 2019 – \$nil).

Changes in the Company's obligations under the deferred and performance 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.

7. 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, adjust dividends, if any, paid to shareholders, issue new shares or new debt or repay existing debt.

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	March 31, December 31,	
	2020	2019
(C\$000s)	(\$)	(\$)
Net loss	(242,726)	(156,203)
Adjusted for the following:		
Depreciation	252,354	261,227
Foreign exchange losses	5,738	6,341
Loss on disposal of property, plant and equipment	4,012	1,870
Impairment of property, plant and equipment	55,689	2,165
Impairment of other assets	507	—
Impairment of inventory	3,744	3,744
Gain on exchange of debt	(130,444)	—
Interest	90,639	85,826
Income taxes	75,306	(52,226)
Operating income	114,819	152,744

Net debt for this purpose is calculated as follows:

As at	March 31, December 31,	
	2020	2019
(C\$000s)	(\$)	(\$)
Long-term debt, net of debt issuance costs and debt discount	947,452	976,693
Lease obligations	36,982	30,919
Add (deduct): bank overdraft (cash and cash equivalents)	2,997	(42,562)
Net debt	987,431	965,050

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 March 31, 2020, the net debt to operating income ratio was 8.60:1 (December 31, 2019 – 6.32:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	March 31, December 31,	
	2020	2019
(C\$000s, except ratio)	(\$)	(\$)
Net debt	987,431	965,050
Operating income	114,819	152,744
Net debt to operating income ratio	8.60:1	6.32:1

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. At March 31, 2020 and December 31, 2019, the Company was in compliance with its covenants with respect to its credit facilities.

As at March 31,	Covenant Actual	
	2020	2020
Working capital ratio not to fall below	1.15x	2.87x
Funded Debt to Adjusted EBITDA not to exceed ⁽¹⁾⁽²⁾	3.00x	1.94x
Funded Debt to Capitalization not to exceed ⁽¹⁾⁽³⁾	0.30x	0.16x

⁽¹⁾ Funded Debt is defined as Total Debt excluding all outstanding senior unsecured 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 the purposes of 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 as net income or loss for the period less interest, 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 gives an indication of the results from the Company's principal business activities prior to consideration of how its activities are financed and the impact of foreign exchange, taxation and depreciation and amortization charges. Adjusted EBITDA for the period was calculated as follows:

Three Months Ended March 31,	2020	2019
(C\$000s)	(\$)	(\$)
Net loss	(122,857)	(36,334)
Add back (deduct):		
Depreciation	63,263	72,136
Unrealized foreign exchange (gains) losses	(2,280)	144
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment	53,524	—
Impairment of other assets	507	—
Restructuring charges	2,621	20
Stock-based compensation	683	812
Gain on exchange of debt	(130,444)	—
Interest	26,043	21,230
Income taxes	114,083	(13,449)
Adjusted EBITDA ⁽¹⁾	6,812	44,086

⁽¹⁾ For bank covenant purposes, EBITDA includes an additional \$5,466 of lease payments 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:

- i 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;
- ii 100 percent of unencumbered cash of the parent company and its U.S. operating subsidiary, excluding any cash held in a segregated account for the purposes of a potential equity cure; and
- iii 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 senior unsecured notes and second lien secured notes contain restrictions on the Company's ability to pay dividends, purchase and redeem shares of the Company, and make certain restricted investments in circumstances where:

- i. the Company is in default under the indenture or the making of such payment would result in a default;
- ii. the Company is not meeting the Fixed Charge Coverage Ratio⁽¹⁾ under the indenture of at least 2:1 for the most recent four fiscal quarters; or
- iii. there is insufficient room for such payment within a builder basket included in the indenture.

⁽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 indenture 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, provision for settlement of litigation, 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. As at March 31, 2020, this basket was not utilized.

The indenture also restricts the incurrence of 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, including the incurrence of additional debt under credit facilities up to the greater of \$375,000 or 30 percent of the Company's consolidated tangible assets.

As at March 31, 2020, the Company's Fixed Charge Coverage Ratio of 1.44:1 was less than the required 2:1 ratio. Failing to meet the Fixed Charge Coverage Ratio is not an event of default under the indenture, and the baskets highlighted in the preceding paragraphs provide sufficient flexibility for the Company to make anticipated restricted payments, such as dividends, and incur additional indebtedness as required to conduct its operations and satisfy its obligations.

See note 1 and 10 for further details regarding the Company's senior unsecured notes.

Proceeds from equity offerings may be applied as both an adjustment in the calculation of Adjusted EBITDA and as a reduction of Funded Debt towards the Funded Debt to Adjusted EBITDA ratio covenant for any of the quarters ending prior to and including June 30, 2022, 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

In addition, to the extent that proceeds from an equity offering are used as part of the Equity Cure, such proceeds are included in the calculation of the Company's borrowing base.

8. 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 \$10,669 (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 has been 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. Oppositions have been filed on behalf of the Company in respect of each of these orders which oppose the orders on the basis that they were improperly issued and are barred from a statute of limitations perspective. The salaries in arrears sought to be recovered through these orders are part of the \$10,669 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the \$29,360 (18,840 euros) cited below. Provisional orders granting a temporary suspension of any enforcement proceedings have been granted in respect of all of the orders that have been served. The opposition against the order served on March 24, 2015 was heard on November 24, 2015 and a decision was issued on November 25, 2016 accepting the Company's opposition on the basis that no lawful service had taken place until the filing of the opponents' petition and/or the issuance of the payment order. The plaintiffs filed an appeal against the above decision which was heard on October 16, 2018 and was rejected in June 2019. The plaintiffs have filed a petition for cassation against appeal judgment, the hearing of which has not yet been scheduled. A hearing in respect of the order served on November 23, 2015 took place on October 31, 2018 and a decision was issued in October 2019 accepting the Company's opposition. The plaintiffs filed an appeal against this decision, the hearing of which was scheduled for March 24, 2020. Due to the COVID-19 pandemic, the hearing did not take place and it has not been rescheduled yet. A hearing in respect of the orders served in December 2015 scheduled for September 20, 2016 was adjourned until November 21, 2016 and decisions were issued on January 9, 2017 accepting the Company's oppositions on a statute of limitations basis. The plaintiffs filed appeals against the above decisions which were heard on October 16, 2018 and were rejected in June 2019. The plaintiffs have filed petitions for cassation against appeal judgments, the hearings of which have not yet been scheduled.

NAPC is also the subject of a claim for approximately \$4,460 (2,862 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 \$900 (578 euros), amounted to \$29,360 (18,840 euros) as at March 31, 2020.

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 interim condensed consolidated financial statements.

9. 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.

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	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C\$000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Three Months Ended March 31, 2020						
Revenue	104,619	154,112	20,991	25,793		305,515
Operating income (loss) ⁽¹⁾	11,975	5,187	(2,298)	(1,632)	(7,534)	5,698
Segmented assets	465,790	753,657	70,316	181,012		1,470,775
Capital expenditures	4,234	24,031	587	431		29,283
Three Months Ended March 31, 2019						
Revenue	131,395	259,125	29,078	55,414	—	475,012
Operating income (loss) ⁽¹⁾	13,726	37,744	(2,776)	4,855	(9,926)	43,623
Segmented assets	566,199	916,136	107,339	149,634	—	1,739,308
Capital expenditures	3,921	19,428	2,179	2,690	—	28,218

⁽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 March 31,	2020	2019
(C\$000s)	(\$)	(\$)
Net loss	(122,857)	(36,334)
Add back (deduct):		
Depreciation	63,263	72,136
Foreign exchange (gains) losses	(90)	513
Loss (gain) on disposal of property, plant and equipment	1,669	(473)
Impairment of property, plant and equipment	53,524	—
Impairment of other assets	507	—
Gain on exchange of debt	(130,444)	—

Interest	26,043	21,230
Income taxes	114,083	(13,449)
<u>Operating income</u>	5,698	43,623

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

10. SUBSEQUENT EVENT

Subsequent to the end of the first quarter, the Company elected to defer its cash interest payment that was due on June 15, 2020 in respect of its outstanding 8.50% senior unsecured notes due 2026. Under the terms of the unsecured notes indenture, the Company has a 30-day grace period from the periodic interest payment date of June 15 in order to make this cash interest payment before an event of default will occur. The Company has both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place.

SOURCE Calfrac Well Services Ltd.

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