Calfrac Announces Early Conversion Incentive Program for its Outstanding 1.5 Lien Notes and Provides Fourth-Quarter Operational Update

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CALGARY, AB, Nov. 22, 2022 /CNW/ - Calfrac Well Services Ltd. ("Calfrac" or "the Company") (TSX: CFW) is pleased to announce a conversion incentive program (the "Program") designed to encourage the early conversion of up to all of the $47,440,000 principal amount of outstanding 10.0% 1.5 Lien Senior Secured Convertible PIK Notes issued by the Company (the "Notes"). The Notes are currently convertible into common shares of the Company ("Common Shares") at a conversion price of $1.3325 per Common Share. The closing price of the Common Shares on the Toronto Stock Exchange on November 21, 2022, was $7.15.

The Program will commence November 23, 2022, at 9:00 a.m. (Calgary time) and expire on December 15, 2022, at 5:00 p.m. (Calgary time) (the "Early Conversion Period"). Under the Program, each holder of Notes (a "Noteholder") that converts their Notes to Common Shares during the Early Conversion Period, will receive a payment from the Company equal to fifty percent (50%) of each holder's respective foregone interest entitlement from, and including, the date of conversion of such holders Notes through to, but excluding, the maturity date of the Notes on December 18, 2023. A Noteholder that participates in the Program will also receive a payment as required by the Note indenture equal to the accrued and unpaid interest on the Notes converted by the Noteholder to, but excluding, the date of conversion.

Holders of an aggregate of $43,254,000 principal amount of Notes (approximately 91% of the total Notes outstanding) have executed conversion commitment letters with the Company pursuant to which they have agreed to convert all of the Notes beneficially owned or controlled by them pursuant to the Program.

If all of the Notes are converted during the Early Conversion Period, Calfrac would:

- issue approximately 35,602,250 Common Shares pursuant to the conversion of the Notes by Noteholders in accordance with the terms of the indenture governing the Notes;
- reduce its outstanding indebtedness by $47,440,000; and
- realize savings of approximately $2.4 million of interest otherwise payable on the Notes to the Maturity Date.

The terms and conditions of the Program and the method of converting Notes pursuant to the Program will be set forth in a letter to be mailed to each Noteholder's address on the list of registered Noteholders maintained by Computershare. A copy of the letter will also be posted on SEDAR.

Noteholders who elect to participate in the Program will be required to deliver the following to the Company prior to expiry of the Early Conversion Period:

- a duly completed and executed Conversion Notice, in the form provided by the Note indenture and included in the letter to be sent to Noteholders;
- a completed payment information form in the form attached to the letter to be sent to Noteholders; and
- the original certificate representing the Notes being converted, if applicable.

Noteholders that wish to participate in the Program must convert all of the Notes beneficially owned or controlled by them. Noteholders who convert less than all of the Notes beneficially owned or controlled by them will not be eligible to participate in the Program.

Any Notes that are not converted during the Early Conversion Period will remain outstanding and continue to accrue interest and remain convertible for Common Shares on their existing terms.

All references to "$" in this press release are to Canadian dollars, unless otherwise indicated.

FOURTH-QUARTER OPERATIONAL AND FINANCIAL UPDATE

In conjunction with this Program announcement, the Company is pleased to provide an operational and financial update for the fourth quarter of 2022 for its continuing operations in the United States, Canada, and Argentina. As anticipated in the previous quarter's Management's Discussion and Analysis, Calfrac has sustained the positive momentum that was generated during the third quarter as operators in North America and Argentina are continuing their steady pace of development in a tight oilfield services market, which is expected to deliver significant year-over-year growth in financial performance.

Although the fourth quarter of 2022 has not yet concluded, Calfrac's management expects its fourth-quarter revenue from continuing operations to range between $460.0 million and $480.0 million, Adjusted EBITDA from continuing operations to range between $80.0 million and $90.0 million, and Adjusted EBITDA margin from continuing operations to range between 17% and 19%. These financial projections could be affected by external factors that are outside of the Company's control, such as adverse weather conditions, inflation, and changes in its clients' schedules.

By comparison, Calfrac generated revenue from continuing operations of $438.3 million and Adjusted EBITDA from continuing operations of $91.3 million (Adjusted EBITDA margin of 21%) in the third quarter of 2022. Calfrac generated revenue from continuing operations of $229.7 million and Adjusted EBITDA from continuing operations of $8.0 million (Adjusted EBITDA margin of 3%) in the fourth quarter of 2021.

If all of the Company's remaining outstanding Notes are converted under the Program, Calfrac's Total Debt to consolidated trailing twelve-month Adjusted EBITDA ratio is expected to trend lower to approximately 1.60 to 1.00 by the end of the year. Deleveraging the balance sheet continues to remain a key priority for the Company and a primary method to return value to its shareholders.

Adjusted EBITDA, Adjusted EBITDA margin and Total Debt to consolidated trailing twelve-month Adjusted EBITDA are non-GAAP financial measures that do not have a standardized meaning and are not consistently defined among issuers. See "Non-GAAP Measures" below.

ADVISORIES

CANADIAN SECURITIES LAW MATTERS

This news release shall not constitute an offer to sell or a solicitation of an offer to buy the securities described herein, nor shall there be any sale of these securities in any state or other jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

The underlying Common Shares to be issued pursuant to the exercise of the Notes will generally be "freely tradable" under Canadian securities laws if the following conditions are satisfied: (i) the trade is not a "control distribution" (as defined in National Instrument 45-102 – Resale of Securities), (ii) no unusual effort is made to prepare the market or create a demand for the Common Shares, (iii) no extraordinary commission or consideration is paid to a person or company in respect of the trade; and (iv) if the selling shareholder is an insider or officer of the Company, the selling shareholder has no reasonable grounds to believe the issuer is in default of Canadian securities legislation.

Armco Alberta Inc. (a company controlled by George Armoyan, a director of Calfrac), which holds $23,302,000 principal amount of Notes, and Ronald P. Mathison, Chairman of Calfrac, who holds $11,243,000 principal amount of Notes are insiders of the Company. Each of the foregoing have executed a conversion commitment letter pursuant to which they have agreed to convert all of the Notes beneficially owned or controlled by them pursuant to the Program.

The participation by each insider in the Program is a "related party transaction" subject to Part 5 of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). The Company is exempt from the formal valuation requirement in section 5.4 of MI 61-101 in reliance on section 5.5(a) of MI 61-101 and is exempt from the minority shareholder approval requirement in section 5.6 of MI 61-101 in reliance on section 5.7(1)(a) of MI 61-101, as the fair market value of the early incentive payment to be made on the Notes beneficially owned, or over which Messrs. Armoyan and Mathison exercise control or direction, does not exceed 25% of the market capitalization of the Corporation, as determined in accordance with MI 61-101.

Assuming all of the $47,440,000 principal amount of outstanding Notes are converted to Common Shares, Armco Alberta Inc. and Ronald P. Mathison would hold approximately 34% and 11% of the outstanding Common Shares following the conversion.

The independent members of the board of directors of the Company reviewed, assessed and approved the Program, with Messrs. Armoyan and Mathison recusing themselves. No materially contrary view or abstention was expressed or made by any director.

Other than the conversion commitment agreements, the Company did not enter into any agreement with an interested party or a joint actor with an interested party in connection with the Program. There are no prior valuations that are relevant to the Program that have been made in the past 24 months.

U.S. SECURITIES LAW MATTERS

The Notes were originally issued by the Company in connection with a plan of arrangement completed on December 18, 2020. The underlying Common Shares to be issued pursuant to the conversion of the Notes have not been, and will not be, registered under the U.S. Securities Act or any U.S. state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, United States persons absent registration or any applicable exemption from the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. This press release does not constitute an offer to sell or the solicitation of an offer to buy securities in the United States, nor in any other jurisdiction.

NON-GAAP MEASURES

Adjusted EBITDA, Adjusted EBITDA margin, and Total Debt to consolidated trailing twelve month Adjusted EBITDA do not have any standardized meaning under International Financial Reporting Standards and are non-GAAP financial measures. These measures are described and presented to provide readers 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 should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Adjusted EBITDA is defined as net income or loss for the period adjusted for interest, income taxes, depreciation and amortization, unrealized foreign exchange losses (gains), non-cash stock-based compensation, and gains and losses that are extraordinary or non-recurring. Adjusted EBITDA margin is the ratio of Adjusted EBITDA to revenue for the period expressed as a percentage. Total Debt for the purposes of the Company's Total Debt to consolidated trailing twelve month Adjusted EBITDA calculation includes bank loans and long-term debt (before unamortized debt issuance costs and debt discount) plus outstanding letters of credit and is reduced by cash on hand with Calfrac's lenders. Adjusted EBITDA for the purposes of this ratio includes the results of the Company's Russian operations. These non-GAAP measures should be read in conjunction with the Company's quarterly financial statements and annual financial statements and the accompanying notes thereto.

A quantitative reconciliation of Adjusted EBITDA from continuing operations to net income (loss) (a GAAP measure) for the third quarter of 2022 can be found under the heading "Non-GAAP Measures" in Calfrac's management discussion and analysis for the three and nine months ended September 30, 2022 dated November 2, 2022, which is available at www.sedar.com and is incorporated herein by reference. Calfrac's net income for the third quarter of 2022 was $45.4 million.

FORWARD-LOOKING STATEMENTS

This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "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 and information in this press release include, but are not limited to, statements with respect to (1) the Program and the anticipated timing to complete the Program, expected Noteholder participation, and the consequences and benefits thereof, including potential debt reduction and interest savings to be realized by the Company; (2) the financial and operation outlook for Calfrac's operating divisions in Canada, the United States and Argentina in the fourth quarter of 2022, including preliminary estimates of Calfrac's revenue, Adjusted EBITDA and Adjusted EBITDA margin for continuing operations for the three months ended December 31, 2022, and the trend for and potential reduction of Calfrac's Total Debt to consolidated trailing twelve month Adjusted EBITDA ratio as of December, 2022; and (3) the Company's intentions and expectations with respect to the foregoing. Calfrac's financial statements for the three months ended December 31, 2022 are not yet complete. Accordingly, the Company is presenting preliminary estimates of certain financial information for the three months ended December 31, 2022. These estimates are preliminary and unaudited and are inherently uncertain and subject to change as Calfrac completes its financial statements for the three months ended December 31, 2022. Given the timing of these estimates, the Company has not completed its customary financial closing and review procedures as of and for the three months ended December 31, 2022, and there can be no assurance that Calfrac's final results for the three months ended December 31, 2022 will not differ from the preliminary estimates set forth in this press release.

These forward-looking statements and information 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 terms of the Program and the Company's perception of its benefits to Noteholders and the Company; the economic and political environment in which the Company operates, including the anticipated impacts of inflation on the Company's operations and demand for its services; the Company's expectations for its current and prospective customers' capital budgets, schedule and geographical areas of focus; the seasonal weather patterns affecting the Company's operations; industry equipment levels; the effect of competition on the Company's ability to retain current clients and obtain new ones; the effect of the military conflict in Ukraine and related Canadian, U.S. and international sanctions and restrictions involving Russia and counter-sanctions and restrictions by Russia on the Company's ownership and planned sale of the Russian division and the broader markets for the Company's services; the continued effectiveness of cost reduction measures instituted by the Company; the Company's ability to obtain and retain qualified staff; the effect of environmental, social and governance factors on customer and investor preferences and capital deployment; the Company's existing contracts and the status of current negotiations with key customers and suppliers; the continued effectiveness of cost reduction measures instituted by the Company; and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements and information 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 but are not limited to: changes in the trading price of the Common Shares during the Program, volatility of industry conditions including the level of exploration, development and production for oil and natural gas in Canada, the U.S. and Argentina and market prices for oil and natural gas impacting the demand for oilfield services; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; oilfield equipment utilization levels; risks associated with foreign operations, including risks relating to unsettled political conditions, war, including the ongoing Russia and Ukraine conflict and any expansion of that conflict, foreign exchange rates and controls, international trade and regulatory controls and sanctions, and doing business with national oil companies; failure to receive any applicable regulatory approvals, including in respect of the sale of the Company's Russian division; the impacts of the Russia-Ukraine conflict on the supply and demand for oil and gas produced in Russia and globally; and those other risk factors set forth under the heading "Risk Factors" in Calfrac's Annual Information Form for the year ended December 31, 2021 dated March 18, 2022 and under the heading "Business Risks" in Calfrac's Management's Discussion and Analysis for the year ended December 31, 2021 dated March 18, 2022, which are available at www.sedar.com and are incorporated herein by reference.

This press also release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's anticipated fourth quarter revenues, Adjusted EBITDA, Adjusted EBITDA margin and Total Debt to consolidated trailing twelve month Adjusted EBITDA, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. The Company's actual results of operations and the resulting financial results will likely vary from the amounts set forth in this press release and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments as of the date hereof; however, because this information is subjective and subject to numerous risks, it should not be relied on as necessarily indicative of future results.

The forward-looking statements and information (including FOFI) contained in this press release speak only as of the date hereof and Calfrac does not undertake any obligation to update publicly or revise any such forward-looking statements or information, whether due to new information, future events or otherwise, unless so required by applicable securities laws. The Company's actual results could also differ materially from those anticipated in these forward-looking information and statements (including FOFI) due to the risk factors discussed above and incorporated herein by reference.

ADDITIONAL INFORMATION

Calfrac's common shares and warrants are publicly traded on the Toronto Stock Exchange under the trading symbols "CFW" and "CFW.WT", respectively.

Calfrac provides specialized oilfield services to exploration and production companies designed to increase the production of hydrocarbons from wells with continuing operations focused throughout western Canada, the United States and Argentina. During the first quarter of 2022, management committed to a plan to sell the Company's Russian division, resulting in the associated assets and liabilities being classified as held for sale and presented in the Company's financial statements as discontinued operations. The results of the Company's discontinued operations are excluded from the discussion and figures presented above unless otherwise noted. See Note 3 to the Company's consolidated interim financial statements for the three and nine months ended September 30, 2022 for additional information on the Company's discontinued operations.

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.

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