Calfrac Announces Second Quarter Results

July 30, 2020 4:00 PM EDT

CALGARY, AB, July 30, 2020 /CNW/ - **Calfrac Well Services Ltd. ("Calfrac" or "the Company")** (TSX: CFW) announces its financial and operating results for the three and six months ended June 30, 2020.

HIGHLIGHTS

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2020	2019	Change	**2020**	2019	Change
(C$000s, except per share and unit data) (unaudited)	***($)***	*($)*	*(%)*	***($)***	*($)*	*(%)*
Revenue	**91,423**	429,638	(79)	**396,938**	904,650	(56)
Operating (loss) income[(1)]	**(7,307)**	41,103	NM	**(1,609)**	84,726	NM
Per share – basic	**(0.05)**	0.28	NM	**(0.01)**	0.59	NM
Per share – diluted	**(0.05)**	0.28	NM	**(0.01)**	0.58	NM
Adjusted EBITDA[(1)]	**(5,185)**	45,123	NM	**1,627**	89,209	(98)
Per share – basic	**(0.04)**	0.31	NM	**0.01**	0.62	(98)
Per share – diluted	**(0.04)**	0.31	NM	**0.01**	0.61	(98)
Net loss	**(277,275)**	(41,045)	NM	**(400,132)**	(77,379)	NM
Per share – basic	**(1.91)**	(0.28)	NM	**(2.76)**	(0.54)	NM
Per share – diluted	**(1.91)**	(0.28)	NM	**(2.76)**	(0.54)	NM
Working capital (end of period)				**157,165**	291,056	(46)
Total equity (end of period)				**(34,195)**	443,361	NM
Weighted average common shares outstanding (000s)						
Basic	**145,002**	144,456	—	**144,972**	144,430	—
Diluted	**145,617**	146,070	—	**145,590**	146,148	—

[(1)] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

PRESIDENT'S MESSAGE

Calfrac's President and Chief Operating Officer, Lindsay Link commented on the results: "Calfrac executed a comprehensive response to very challenging market conditions in the second quarter. While these periods are difficult to navigate, our team remained focused on maintaining our License to Operate and prudently repositioning the Company's footprint and cost structure to meet the challenges of our industry. My thanks to everyone for their efforts and continued dedication to Do It Better, Do It Safely, Do It On Time."

During the quarter, Calfrac:

- reduced its operating footprint to 2-3 fleets in Canada and 3-5 fleets in the United States, and
- announced over $200.0 million in annual cost and capital reductions.

Subsequent to the end of the quarter, the Company announced it had obtained a preliminary interim order under the provisions of the Canada Business Corporations Act, which included, among other things, a stay of proceedings against certain creditors, and announced a recapitalization plan aimed at significantly reducing the Company's debt burden and providing additional liquidity to fund ongoing operations.

SECOND QUARTER 2020 OVERVIEW

CONSOLIDATED HIGHLIGHTS

Three Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**91,423**	429,638	(79)

Expenses			
Operating	**87,520**	371,368	(76)
Selling, general and administrative (SG&A)	**11,210**	17,167	(35)
	98,730	388,535	(75)
Operating (loss) income(1)	**(7,307)**	41,103	NM
Operating (loss) income (%)	**(8.0)**	9.6	NM
Adjusted EBITDA(1)	**(5,185)**	45,123	NM
Adjusted EBITDA (%)	**(5.7)**	10.5	NM
Fracturing revenue per job ($)	**36,406**	44,767	(19)
Number of fracturing jobs	**2,377**	8,852	(73)
Active pumping horsepower, end of period (000s)	**780**	1,346	(42)
Idle pumping horsepower, end of period (000s)	**572**	59	NM
Total pumping horsepower, end of period (000s)	**1,352**	1,405	(4)
Coiled tubing revenue per job ($)	**21,773**	22,339	(3)
Number of coiled tubing jobs	**209**	823	(75)
Active coiled tubing units, end of period (#)	**16**	21	(24)
Idle coiled tubing units, end of period (#)	**11**	8	38
Total coiled tubing units, end of period (#)	**27**	29	(7)
Cementing revenue per job ($)	**36,608**	41,595	(12)
Number of cementing jobs	**7**	134	(95)
Active cementing units, end of period (#)	**13**	14	(7)
Idle cementing units, end of period (#)	**3**	9	(67)
Total cementing units, end of period (#)	**16**	23	(30)

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

Revenue in the second quarter of 2020 was $91.4 million, a decrease of 79 percent from the same period in 2019. The lower revenue was mainly due to the fracturing job count decreasing by 73 percent resulting primarily from lower activity in North America and Argentina. Cementing activity in Argentina was down 95 percent while consolidated coiled tubing activity decreased by 75 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 73 percent decline in job count experienced in the second quarter in 2020 as compared to the second quarter of the prior year. Additionally, the government-mandated shutdown that began in March due to COVID-19 negatively impacted activity levels in that country during most of the second quarter.

Adjusted EBITDA of negative $5.2 million for the second quarter of 2020 decreased from $45.1 million in the comparable period in 2019 primarily as a result of the sharp decline in activity in the United States and Argentina.

Net loss was $277.3 million or $1.91 per share diluted compared to a net loss of $41.0 or $0.28 per share diluted in the same period last year. The Company recorded an impairment of property, plant and equipment (PP&E) and inventory of $201.6 million during the second quarter in 2020. In addition, the Company recorded restructuring charges of $2.4 million in the second quarter of 2020.

Three Months Ended	**June 30, 2020**	March 31, 2020	Change
(C$000s, except operational information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**91,423**	305,515	(70)
Expenses			
Operating	**87,520**	282,747	(69)
SG&A	**11,210**	17,070	(34)
	98,730	299,817	(67)
Operating (loss) income(1)	**(7,307)**	5,698	NM
Operating (loss) income (%)	**(8.0)**	1.9	NM
Adjusted EBITDA(1)	**(5,185)**	6,812	NM
Adjusted EBITDA (%)	**(5.7)**	2.2	NM
Fracturing revenue per job ($)	**36,406**	23,323	56
Number of fracturing jobs	**2,377**	11,969	(80)
Active pumping horsepower, end of period (000s)	**780**	1,242	(37)
Idle pumping horsepower, end of period (000s)	**572**	174	NM
Total pumping horsepower, end of period (000s)	**1,352**	1,416	(5)
Coiled tubing revenue per job ($)	**21,773**	34,804	(37)
Number of coiled tubing jobs	**209**	542	(61)
Active coiled tubing units, end of period (#)	**16**	20	(20)
Idle coiled tubing units, end of period (#)	**11**	7	57
Total coiled tubing units, end of period (#)	**27**	27	—
Cementing revenue per job ($)	**36,608**	61,979	(41)
Number of cementing jobs	**7**	121	(94)
Active cementing units, end of period (#)	**13**	13	—
Idle cementing units, end of period (#)	**3**	3	—
Total cementing units, end of period (#)	**16**	16	—

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

Revenue in the second quarter of 2020 was $91.4 million, a decrease of 70 percent from the first quarter of 2020, primarily due to lower fracturing activity in North America and Argentina, offset partially by increased activity in Russia. Revenue per fracturing job was 56 percent higher compared with the first quarter of 2020 due to job mix in Canada and the United States.

In Canada, second-quarter revenue decreased by 73 percent from the first quarter to $27.8 million due to reduced customer activity resulting from the

COVID-19 pandemic and steep reduction in oil prices. These combined factors resulted in no work being completed during the month of May. Operating income as a percentage of revenue was 23 percent compared to 11 percent in the first quarter primarily due to the $3.9 million Canadian Emergency Wage Subsidy that was received during the second quarter.

In the United States, revenue in the second quarter of 2020 was $38.2 million or 75 percent lower than the first quarter. The decline was primarily activity driven due to the steep decline in oil prices, which bottomed in April, and the impact of the COVID-19 pandemic. The operating loss was $5.0 million in the second quarter or $10.1 million lower than the first quarter of 2020 due to the lower revenue base.

In Russia, revenue of $23.9 million in the second quarter of 2020 was 14 percent higher than the first quarter while operating income improved by $5.1 million due primarily to improved utilization.

In Argentina, revenue in the second quarter of 2020 decreased by 94 percent from the first quarter to $1.5 million and resulted in an operating loss of $6.4 million compared to an operating loss of $1.6 million in the first quarter. The decrease in revenue and operating income was primarily attributed to the government mandated shutdown that started in March due to COVID-19 with limited activity restarting in the southern part of the country in June.

Adjusted EBITDA of negative $5.2 million for the second quarter of 2020 decreased from positive $6.8 million in the first quarter of 2020 primarily due to lower utilization in the United States and Argentina.

BUSINESS UPDATE AND OUTLOOK

Calfrac's operating results during the second quarter were primarily the result of a substantial reduction in producer activity in North America in response to weakened commodity prices. This was exacerbated by a full shutdown of operations in Argentina during the quarter, but offset partially by improved activity in Russia.

In June, the Company announced it had engaged financial advisors to aid in the evaluation of alternatives for addressing its capital structure, and elected to defer an interest payment, originally due on June 15th. Subsequent to the quarter, Calfrac announced the terms of a debt restructuring transaction and receipt of a preliminary interim order under the Canada Business Corporations Act.

CANADA

In Canada, activity slowed significantly from the prior quarter, reaching its lowest levels in May. However, utilization improved in June as a number of projects moved ahead.

Calfrac's Canadian division is appropriately sized for current market conditions, and is staffed to be able to deploy up to 150,000 HP in various configurations to support the Company's clients' operations. Pricing remains challenging and Calfrac's focus remains on supporting its existing clients, rather than adding market share in a distressed environment through pricing efforts.

Activity in the third quarter is expected to improve over second quarter levels based on conversations with core clients to date, but is not expected to require incremental equipment for the remainder of the year.

UNITED STATES

During the second quarter, Calfrac's operations in the United States contracted meaningfully, exiting with three active fleets and the capacity to field up to five fleets, as required. Operational resources have been reduced to focus only on those districts with sustainable activity levels. In order to ensure the Company's equipment is managed prudently during this period of low activity, a significant amount of idle assets have been repositioned to the Company's maintenance facility in Beebe, Arkansas. This includes approximately 65,000 HP that has been removed from service and retired.

Recent improvements in crude oil prices have caused a number of customers to revisit their 2020 capital programs although most producers appear to be taking a cautious approach to capital allocation. This caution is expected to result in a relatively slow pace of activity gains in the near term.

RUSSIA

As expected, results in the second quarter improved materially in Calfrac's operations in Russia. The shift out of winter operating conditions occurred quickly, and consequently, Calfrac's main client accelerated activity. Currently, Calfrac is operating four fracturing spreads and four coiled tubing units in Western Siberia. Activity is expected to remain consistent throughout the third quarter, with some slowdown expected towards the end of the year.

Calfrac retains the ability to activate more equipment, and will work within its contracted relationships to maintain the highest utilization possible without impacting our clients' programs.

ARGENTINA

In Argentina, Calfrac's operations bore the impact of a government-mandated shutdown of field operations beginning in mid-March. Early in June, activity in the southern area of the country was restarted with smaller field crews commencing operations. Activity in the Neuquen region did not resume meaningfully during the quarter, which was reflected in the reported results. Discussions with unions and governments continue with the aim of striking an acceptable balance between job security and the financial realities in the country.

Utilization in the third quarter is expected to be higher sequentially, although firm dates for the resumption of full activity in the Vaca Muerta shale play is not yet known. Some competitors in the country have reduced or ceased operations, which may fundamentally improve market conditions as activity improves.

CORPORATE

Calfrac's corporate focus remains on managing costs and capital as aggressively as possible in the near term, while maintaining its position as a trusted provider of safe and efficient service for its clients. The Company and its advisors continue to work on executing the previously announced debt restructuring transaction that is expected to materially improve Calfrac's financial position in both the near-term and throughout the cycle.

FINANCIAL OVERVIEW – THREE MONTHS ENDED JUNE 30, 2020 VERSUS 2019

CANADA

Three Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**27,813**	88,420	(69)
Expenses			
Operating	**20,208**	78,195	(74)
SG&A	**1,277**	2,116	(40)
	21,485	80,311	(73)

Operating income[1]	**6,328**	8,109	(22)
Operating income (%)	**22.8**	9.2	148
Fracturing revenue per job ($)	**26,289**	27,343	(4)
Number of fracturing jobs	**978**	2,875	(66)
Active pumping horsepower, end of period (000s)	**174**	257	(32)
Idle pumping horsepower, end of period (000s)	**105**	49	114
Total pumping horsepower, end of period (000s)	**279**	306	(9)
Coiled tubing revenue per job ($)	**13,563**	15,430	(12)
Number of coiled tubing jobs	**155**	598	(74)
Active coiled tubing units, end of period (#)	**7**	11	(36)
Idle coiled tubing units, end of period (#)	**6**	3	100
Total coiled tubing units, end of period (#)	**13**	14	(7)

[1] Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the second quarter of 2020 was $27.8 million compared to $88.4 million in the same period of 2019 primarily due to lower activity. In the second quarter of 2020, the number of fracturing jobs was 66 percent lower than the comparable period in 2019 due to the impact on planned customer activity for the second quarter resulting from the COVID-19 pandemic and the steep reduction in oil prices. These combined factors resulted in no work being completed during the month of May. During the quarter, the Company operated two 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 74 percent from the second quarter in 2019 as the number of coiled tubing crews was reduced by two while revenue per job decreased by 12 percent due to job mix.

OPERATING INCOME

Operating income in Canada during the second quarter of 2020 was $6.3 million compared to $8.1 million in the same period of 2019. As a percentage of revenue, the Company's operating income increased from 9 percent to 23 percent in 2020 despite a 69 percent decrease in revenue. This increase was due to a combination of higher equipment utilization as the Company operated a reduced number of crewed fleets and the $3.9 million Canadian Emergency Wage Subsidy that was received and recorded as a reduction of operating costs during the quarter. The 22 percent decrease in operating income on a dollar basis was mainly due to the lower revenue base.

UNITED STATES

Three Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information) (unaudited)	***($)***	*($)*	*(%)*
Revenue	**38,192**	259,085	(85)
Expenses			
Operating	**39,998**	218,215	(82)
SG&A	**3,145**	3,820	(18)
	43,143	222,035	(81)
Operating (loss) income[1]	**(4,951)**	37,050	NM
Operating (loss) income (%)	**(13.0)**	14.3	NM
Fracturing revenue per job ($)	**32,630**	47,469	(31)
Number of fracturing jobs	**1,168**	5,458	(79)
Active pumping horsepower, end of period (000s)	**423**	877	(52)
Idle pumping horsepower, end of period (000s)	**450**	10	NM
Total pumping horsepower, end of period (000s)	**873**	887	(2)
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**	9	(78)
Total cementing units, end of period (#)	**2**	9	(78)
US$/C$ average exchange rate[2]	**1.3853**	1.3377	4

[1] Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

[2] Source: Bank of Canada.

REVENUE

Revenue from Calfrac's United States operations decreased to $38.2 million during the second 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 79 percent reduction in the number of fracturing jobs completed and a 31 percent decrease in revenue per job period-over-period. The decrease in activity was driven by the steep decline in oil prices, which bottomed in April, and the impact of the COVID-19 pandemic. Customer work programs in North Dakota and Texas were curtailed on very short notice resulting in significantly lower activity in these regions compared to the same quarter in 2019. The Company did not operate any fleets in these regions during the majority of the second quarter although one fleet was reactivated in each of North Dakota and Pennsylvania for customers in mid-June. Continued low gas prices also reduced customer activity in Pennsylvania compared to the second quarter in 2019 with the Company operating one fleet during the quarter. The Company's operations in Colorado were not impacted to the same degree as its other operating regions; however activity was down compared to the same period in 2019. 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.

OPERATING (LOSS) INCOME

The Company's United States operations incurred an operating loss of $5.0 million during the second quarter of 2020 compared to operating income of $37.1 million in the same period in 2019. The operating loss during the quarter was the result of the rapid reduction in activity across all operating regions. The Company reduced its operating footprint from 10 active fleets at the end of the first quarter to between three and five fleets during the second quarter in response to the deterioration in the market. As a result, $1.8 million of restructuring charges were recorded during the second quarter of 2020. The Company incurred excess labour costs of approximately $1.5 million relating to holding a crew in each of Pennsylvania and North Dakota through most of the second quarter for work that did not start until June. SG&A expenses decreased by 18 percent primarily due to headcount and compensation reductions.

RUSSIA

Three Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**23,937**	28,704	(17)
Expenses			
Operating	**20,468**	27,776	(26)
SG&A	**717**	807	(11)
	21,185	28,583	(26)
Operating income[(1)]	**2,752**	121	NM
Operating income (%)	**11.5**	0.4	NM
Fracturing revenue per job ($)	**95,936**	85,291	12
Number of fracturing jobs	**226**	300	(25)
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 ($)	**44,225**	44,518	(1)
Number of coiled tubing jobs	**51**	70	(27)
Active coiled tubing units, end of period (#)	**3**	4	(25)
Idle coiled tubing units, end of period (#)	**4**	3	33
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate[(2)]	**0.0192**	0.0207	(7)

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

(2) Source: Bank of Canada.

REVENUE

Revenue from Calfrac's Russian operations decreased by 17 percent during the second quarter of 2020 to $23.9 million from $28.7 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 and smaller operating footprint as the Company operated four fracturing crews compared to five fleets in the same period of 2019. Revenue per fracturing job increased by 12 percent primarily due to job mix as a higher percentage of multi-stage wells were completed in the Erginskoye field during June. Coiled tubing activity decreased by 27 percent primarily due to lower than expected utilization with Calfrac's main customer.

OPERATING INCOME

The Company's Russian division generated an operating income of $2.8 million during the second quarter of 2020 versus income of $0.1 million in the comparable quarter in 2019. The improved operating result was primarily due to cost reduction measures, including headcount and compensation reductions, and better utilization for its operating fleets. The operating results during the second quarter in 2020 also included $0.3 million of severance costs.

ARGENTINA

Three Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**1,481**	53,429	(97)
Expenses			
Operating	**6,392**	46,250	(86)
SG&A	**1,534**	3,386	(55)
	7,926	49,636	(84)
Operating (loss) income[(1)]	**(6,445)**	3,793	NM
Operating (loss) income (%)	**(435.2)**	7.1	NM
Active pumping horsepower, end of period (000s)	**118**	135	(13)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	135	(9)
Active cementing units, end of period (#)	**13**	14	(7)
Idle cementing units, end of period (#)	**1**	—	NM
Total cementing units, end of period (#)	**14**	14	—
Active coiled tubing units, end of period (#)	**6**	6	—
Idle coiled tubing units, end of period (#)	**—**	—	—
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[(2)]	**1.3853**	1.3377	4

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

(2) Source: Bank of Canada.

REVENUE

Calfrac's Argentinean operations generated total revenue of $1.5 million during the second quarter of 2020 compared to $53.4 million in the comparable quarter in 2019. In mid-March, the Argentina government mandated a complete shutdown of all oilfield activity in response to the COVID-19 pandemic. The shutdown continued through most of the second quarter, resulting in a 98 percent decrease in fracturing activity. Early in June, fracturing activity in the southern area of the country resumed with smaller field crews commencing operations. Fracturing activity in the Vaca Muerta shale play as well as coiled tubing and cementing operations were also subject to shutdown requirements, and did not generate any meaningful revenue during the second quarter.

OPERATING (LOSS) INCOME

The Company's operations in Argentina incurred an operating loss of $6.4 million during the second quarter of 2020 compared to operating income of

$3.8 million in the comparable quarter of 2019. The operating loss was due to the inability to generate revenue due to the shutdown of operations as a result of the COVID-19 pandemic. The Company took measures to reduce costs during the quarter, including temporary and permanent headcount reductions, price reductions with vendors and elimination of various field costs.

CORPORATE

Three Months Ended June 30,	**2020**	2019	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**454**	932	(51)
SG&A	**4,537**	7,038	(36)
	4,991	7,970	(37)
Operating loss[1]	**(4,991)**	(7,970)	(37)
% of Revenue	**5.5**	1.9	189

[1] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

OPERATING LOSS
Corporate expenses for the second quarter of 2020 were $5.0 million compared to $8.0 million in the second quarter of 2019. The decrease was primarily due to lower personnel costs resulting from headcount and compensation reductions, combined with $0.6 million in government wage subsidies received during the second quarter of 2020. These personnel reductions were offset partially by $0.3 million in restructuring costs.

DEPRECIATION
For the three months ended June 30, 2020, depreciation expense decreased by $15.3 million to $46.2 million from $61.5 million in the corresponding quarter in 2019. The Company recorded a PP&E impairment charge of $53.5 million in the first quarter in 2020, which resulted in lower depreciation in the second quarter. The decrease was also the result of reduced capital expenditures relating to major components, which have a shorter useful life and result in a higher rate of depreciation.

FOREIGN EXCHANGE GAINS AND LOSSES
The Company recorded a foreign exchange loss of $2.0 million during the second quarter of 2020 versus a loss of $0.9 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 U.S. dollar denominated assets held in Canada as the United States dollar depreciated against the Canadian dollar during the second quarter in 2020.

IMPAIRMENT
The Company's financial and operating results continue to be impeded by the global economic slowdown that arose during the first quarter of 2020 due to the OPEC+ oil supply war which weakened commodity prices and also in response to the ongoing worldwide COVID-19 pandemic. A comparison of the recoverable amounts of each cash generating unit (CGU) with their respective carrying amounts resulted in a PP&E impairment of $173.7 million in the second quarter of 2020 (three months ended June 30, 2019 – $nil).

The impairment losses by CGU are as follows:

	Three Months Ended June 30,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**78,136**	—
Argentina	**68,669**	—
Russia	**26,879**	—
	173,684	—

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of $27.9 million (three months ended June 30, 2019 – $nil). The inventory write-down by CGU is as follows:

	Three Months Ended June 30,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**6,200**	—
United States	**10,668**	—
Argentina	**11,000**	—
	27,868	—

INTEREST
The Company's net interest expense of $20.7 million for the second quarter of 2020 was $0.8 million lower than the comparable period in 2019. The decrease in interest expense was primarily due to the debt exchange that was completed during the first quarter in 2020, which resulted in reduced leverage of approximately $130.0 million and interest savings of approximately $1.8 million. This was partially offset by higher credit facility borrowings and a slightly higher average interest rate on such borrowings.

INCOME TAXES
The Company recorded an income tax recovery of $0.4 million during the second quarter of 2020 compared to a recovery of $4.6 million in the comparable period of 2019. The Company derecognized its deferred tax asset during the first quarter of 2020 and will no longer record any deferred income tax amount until the Company has greater certainty as to the realization of such assets.

SUMMARY OF QUARTERLY RESULTS

Three Months Ended	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	**Jun. 30, 2020**
(C$000s, except per share and operating data)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*	***($)***

(unaudited)								
Financial								
Revenue	630,128	498,858	475,012	429,638	399,220	317,085	305,515	**91,423**
Operating income (loss)[1]	115,331	61,992	43,623	41,103	47,021	20,997	5,698	**(7,307)**
Per share – basic	0.80	0.43	0.30	0.28	0.33	0.15	0.04	**(0.05)**
Per share – diluted	0.79	0.42	0.30	0.28	0.32	0.14	0.04	**(0.05)**
Adjusted EBITDA[1]	111,631	62,914	44,086	45,123	43,028	26,882	6,812	**(5,185)**
Per share – basic	0.77	0.44	0.31	0.31	0.30	0.19	0.05	**(0.04)**
Per share – diluted	0.76	0.43	0.30	0.31	0.30	0.18	0.05	**(0.04)**
Net income (loss)	14,878	(3,462)	(36,334)	(41,045)	(29,424)	(49,400)	(122,857)	**(277,275)**
Per share – basic	0.10	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)	**(1.91)**
Per share – diluted	0.10	(0.02)	(0.25)	(0.28)	(0.20)	(0.34)	(0.85)	**(1.91)**
Capital expenditures	34,542	31,484	28,218	37,784	38,885	34,418	29,283	**6,068**
Working capital (end of period)	386,843	329,871	276,785	291,056	257,189	248,772	233,125	**157,165**
Total equity (end of period)	516,899	513,820	481,675	443,361	414,195	368,623	239,099	**(34,195)**
Operating (end of period)								
Active pumping horsepower (000s)	1,344	1,328	1,344	1,346	1,337	1,269	1,242	**780**
Idle pumping horsepower (000s)	49	42	36	59	72	141	174	**572**
Total pumping horsepower (000s)	1,393	1,370	1,380	1,405	1,409	1,410	1,416	**1,352**
Active coiled tubing units (#)	22	22	21	21	21	20	20	**16**
Idle coiled tubing units (#)	8	7	8	8	8	8	7	**11**
Total coiled tubing units (#)	30	29	29	29	29	28	27	**27**
Active cementing units (#)	11	11	11	14	14	13	13	**13**
Idle cementing units (#)	12	12	12	9	9	6	3	**3**
Total cementing units (#)	23	23	23	23	23	19	16	**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 22 and 23 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).

FINANCIAL OVERVIEW – SIX MONTHS ENDED JUNE 30, 2020 VERSUS 2019

CANADA

Six Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**132,432**	219,815	(40)
Expenses			
Operating	**109,901**	192,863	(43)
Selling, general and administrative (SG&A)	**4,228**	5,117	(17)
	114,129	197,980	(42)
Operating income[1]	**18,303**	21,835	(16)
Operating income (%)	**13.8**	9.9	39
Fracturing revenue per job ($)	**16,791**	18,765	(11)
Number of fracturing jobs	**7,164**	10,349	(31)
Active pumping horsepower, end of period (000s)	**174**	257	(32)
Idle pumping horsepower, end of period (000s)	**105**	49	114
Total pumping horsepower, end of period (000s)	**279**	306	(9)
Coiled tubing revenue per job ($)	**21,834**	20,023	9
Number of coiled tubing jobs	**556**	1,200	(54)
Active coiled tubing units, end of period (#)	**7**	11	(36)
Idle coiled tubing units, end of period (#)	**6**	3	100
Total coiled tubing units, end of period (#)	**13**	14	(7)

(1) Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.

REVENUE

Revenue from Calfrac's Canadian operations during the first six months in 2020 was $132.4 million versus $219.8 million in the comparable period in 2019. Through the first half of 2020, the Company responded to lower customer activity by reducing its operating crews from eight down to five at the beginning of 2020 and further reduced the manned crew count to two in the second quarter. Although the Company continued to work for a top tier customer mix in the first half of 2020, the number of fracturing jobs decreased by 31 percent. Revenue per fracturing job decreased by 11 percent from the comparable period in 2019 primarily due to job mix. Despite revenue per job increasing by 9 percent, coiled tubing activity decreased by 54 percent, resulting in lower coiled tubing revenue year-over-year.

OPERATING INCOME

The Company's Canadian division generated operating income of $18.3 million during the first six months in 2020 compared to $21.8 million in the comparable period in 2019. The decrease was due to the significantly lower revenue generated during the period. Despite the lower revenue base, the

Company generated a 14 percent operating income margin due to its focus on controlling operating costs and prudently reducing its operating footprint to match expected activity levels. The Canadian division idled five fleets during the first half of 2020 and revised its field compensation beginning in the first quarter, which helped improve profitability. In addition, the $0.9 million reduction in SG&A expenses compared to 2019 was due to headcount and compensation reductions. The operating results during the first six months in 2020 included $1.6 million of severance costs, offset by $3.9 million received through the Canadian Emergency Wage Subsidy program.

UNITED STATES

Six Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**192,304**	518,210	(63)
Expenses			
Operating	**184,727**	434,929	(58)
SG&A	**7,341**	8,486	(13)
	192,068	443,416	(57)
Operating income(1)	**236**	74,794	(100)
Operating income (%)	**0.1**	14.4	(99)
Fracturing revenue per job ($)	**29,121**	49,080	(41)
Number of fracturing jobs	**6,601**	10,553	(37)
Active pumping horsepower, end of period (000s)	**423**	877	(52)
Idle pumping horsepower, end of period (000s)	**450**	10	NM
Total pumping horsepower, end of period (000s)	**873**	887	(2)
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**	9	(78)
Total cementing units, end of period (#)	**2**	9	(78)
US$/C$ average exchange rate(2)	**1.3651**	1.3336	2

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's United States operations decreased to $192.3 million during the first six months in 2020 from $518.2 million in the comparable period in 2019 primarily due to lower fracturing activity and the impact of a substantial shift to customers providing their own sand. Completions activity in the United States decreased 37 percent compared to the first half in 2019 as customers curtailed spending in all of the Company's operating regions in response to low oil and natural gas prices. Revenue per job decreased 41 percent due to lower pricing combined with the impact of a greater proportion of customers providing their own sand.

OPERATING INCOME

The Company's United States division generated operating income of $0.2 million during the first six months in 2020 compared to $74.8 million during the comparable period in 2019. The 100 percent decrease was primarily the result of the sharp decline in the Company's revenue base as customers reacted to the steep decline in oil prices beginning in February. The Company started 2020 with 10 active fleets operating in the United States and exited the second quarter with three active fleets. The Company operated an average of 14 fleets in the comparable six month period in 2019. SG&A expenses decreased by 13 percent primarily due to lower personnel costs resulting from headcount and compensation reductions. The Company recorded $2.4 million of severance costs during the first half of 2020.

RUSSIA

Six Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**44,928**	57,782	(22)
Expenses			
Operating	**42,718**	58,642	(27)
SG&A	**1,756**	1,795	(2)
	44,474	60,437	(26)
Operating income (loss)(1)	**454**	(2,655)	NM
Operating income (loss) (%)	**1.0**	(4.6)	NM
Fracturing revenue per job ($)	**98,796**	87,257	13
Number of fracturing jobs	**405**	590	(31)
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 ($)	**45,514**	44,059	3
Number of coiled tubing jobs	**108**	143	(24)
Active coiled tubing units, end of period (#)	**3**	4	(25)
Idle coiled tubing units, end of period (#)	**4**	3	33
Total coiled tubing units, end of period (#)	**7**	7	—
Rouble/C$ average exchange rate(2)	**0.0197**	0.0204	(3)

(1) *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

(2) *Source: Bank of Canada.*

REVENUE

Revenue from Calfrac's Russian operations during the first six months in 2020 of $44.9 million was 22 percent lower than the comparable period in 2019. The decrease in revenue, which is generated in roubles, was mostly related to a 31 percent reduction in fracturing activity, primarily during the first three months of the year, when warmer than normal weather restricted access to job locations, and a 24 percent reduction in coiled tubing activity.

Revenue per fracturing job was 13 percent higher than the comparable period in 2019 due to job mix as the Company completed more multi-stage wells during the period. The Company idled one fracturing spread and one coiled tubing unit during the first six months of 2020 to align with activity levels.

OPERATING INCOME (LOSS)
The Company's Russian division generated operating income of $0.5 million during the first six months in 2020 compared to a loss of $2.7 million in the comparable period in 2019. Utilization in the first quarter of 2020 was negatively impacted by warmer than normal weather which restricted access to job locations. The second quarter experienced improved profitability due to better utilization combined with cost reduction measures that were implemented throughout the first six months of 2020. Operating results for the first six months of 2020 included $0.4 million in severance costs.

ARGENTINA

Six Months Ended June 30,	**2020**	2019	Change
(C$000s, except operational and exchange rate information)	***($)***	*($)*	*(%)*
(unaudited)			
Revenue	**27,274**	108,843	(75)
Expenses			
Operating	**31,341**	94,736	(67)
SG&A	**4,010**	5,459	(27)
	35,351	100,195	(65)
Operating (loss) income[1]	**(8,077)**	8,648	NM
Operating (loss) income (%)	**(29.6)**	7.9	NM
Active pumping horsepower, end of period (000s)	**118**	135	(13)
Idle pumping horsepower, end of period (000s)	**5**	—	NM
Total pumping horsepower, end of period (000s)	**123**	135	(9)
Active cementing units, end of period (#)	**13**	14	(7)
Idle cementing units, end of period (#)	**1**	—	NM
Total cementing units, end of period (#)	**14**	14	—
Active coiled tubing units, end of period (#)	**6**	6	—
Idle coiled tubing units, end of period (#)	**—**	—	—
Total coiled tubing units, end of period (#)	**6**	6	—
US$/C$ average exchange rate[2]	**1.3651**	1.3336	2

[1] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*
[2] *Source: Bank of Canada.*

REVENUE
Calfrac's Argentinean operations generated total revenue of $27.3 million during the first six months in 2020 versus $108.8 million in the comparable period in 2019. The 75 percent decline in revenue was primarily due to the significant impact of COVID-19 and the subsequent shutdown of the oilfield industry in Argentina, which affected all service lines. The early part of 2020 started with an increase in activity with some schedule gaps 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. The shutdown continued through most of the second quarter with some activity in southern Argentina restarting in June.

OPERATING (LOSS) INCOME
The Company's operations in Argentina incurred an operating loss of $8.1 million during the first six months in 2020 compared to income of $8.6 million in the comparable period in 2019. The loss was attributable to the sharp decline in revenue caused by the government-mandated shutdown of all oilfield activity in response to the COVID-19 pandemic. The Company took measures where possible to reduce costs in response to the unprecedented revenue disruption, including temporary and permanent headcount reductions, price reductions with vendors and elimination of various field costs.

CORPORATE

Six Months Ended June 30,	**2020**	2019	Change
(C$000s)	***($)***	*($)*	*(%)*
(unaudited)			
Expenses			
Operating	**1,580**	2,383	(34)
SG&A	**10,945**	15,513	(29)
	12,525	17,896	(30)
Operating loss[1]	**(12,525)**	(17,896)	(30)
% of Revenue	**3.2**	2.0	60

[1] *Refer to "Non-GAAP Measures" on pages 22 and 23 for further information.*

OPERATING LOSS
Corporate expenses during the first six months in 2020 were $12.5 million compared to $17.9 million in the comparable period in 2019. The decrease was primarily due to lower stock-based compensation expense of $2.0 million and a reduction in personnel costs, which included $0.6 million in government wage subsidies. This was partially offset by $0.5 million of severance costs during the first six months in 2020.

DEPRECIATION
Depreciation expense during the first six months in 2020 decreased by $24.1 million to $109.5 million from $133.6 million in the comparable period in 2019. The decrease was primarily due to the impact of the impairment charge taken in the first quarter in 2020 combined with lower capital expenditures relating to major components. The remaining reduction in depreciation was the result of the Company decreasing its useful life estimates and salvage values, effective January 1, 2019, for certain components of its fracturing equipment. This resulted in a one-time depreciation charge of $9.5 million during the first quarter in 2019 relating to assets in use at the end of the previous quarter.

FOREIGN EXCHANGE LOSSES

The Company recorded a foreign exchange loss of $1.9 million during the first six months in 2020 versus a loss of $1.4 million in the comparable period in 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. The Company's foreign exchange loss in the first six months in 2020 was largely attributable to net monetary assets that were held in pesos in Argentina as the peso devalued against the U.S. dollar during this period and liabilities held in Canadian dollars in Russia.

IMPAIRMENT

The Company tested each of its CGUs for potential impairment at March 31, 2020 and again at June 30, 2020. A complete summary of the impairment charges recorded during the first six months of 2020 are as follows:

The PP&E impairment losses by CGU are as follows:

	Six Months Ended June 30,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**116,280**	—
United States	**15,380**	—
Argentina	**68,669**	—
Russia	**26,879**	—
	227,208	—

In addition, the Company also carried out a comprehensive review of its inventory to identify individual items that were permanently idle or obsolete, with potential for impairment in value. This resulted in an inventory write-down of $27.9 million (six months ended June 30, 2019 – $nil). The inventory write-down by CGU is as follows:

	Six Months Ended June 30,	
	2020	2019
(C$000s)	***($)***	*($)*
Canada	**6,200**	—
United States	**10,668**	—
Argentina	**11,000**	—
	27,868	—

INTEREST

The Company's interest expense of $46.8 million during the first six months in 2020 was $4.1 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 senior unsecured notes exchanged during the first quarter in 2020. The remaining difference was due to higher credit facility borrowings and a slightly higher average interest rate on such borrowings, offset partially by reduced leverage of $130.0 million resulting from the debt exchange completed in the first quarter of 2020.

INCOME TAXES

The Company recorded an income tax expense of $113.7 million during the first six months in 2020 compared to a $18.1 million tax recovery in the comparable period in 2019. The expense position was the result of the write-off of the Company's deferred tax asset during the first quarter in 2020.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended Jun. 30,		Six Months Ended Jun. 30,	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				
Cash provided by (used in):				
Operating activities	**116,908**	(11,587)	**70,569**	61,161
Financing activities	**(13,299)**	30,732	**6,033**	4,194
Investing activities	**(9,720)**	(34,121)	**(35,576)**	(69,946)
Effect of exchange rate changes on cash and cash equivalents	**(2,972)**	(3,995)	**4,332**	(6,117)
Increase (decrease) in cash and cash equivalents	**90,917**	(18,971)	**45,358**	(10,708)

OPERATING ACTIVITIES

The Company's cash provided by operating activities for the three months ended June 30, 2020 was $116.9 million versus cash used of $11.6 million during the same period in 2019. The increase in cash provided by operations was primarily due to $127.1 million provided by working capital during the second quarter compared to working capital using $14.6 million of cash in the same period in 2019, offset by lower activity in the United States and Argentina. At June 30, 2020, Calfrac's working capital was $157.2 million compared to $248.8 million at December 31, 2019.

FINANCING ACTIVITIES

Net cash used by financing activities for the three months ended June 30, 2020 was $13.3 million compared to net cash provided of $30.7 million in the comparable period in 2019. During the three months ended June 30, 2020, the Company had net repayments under its credit facilities of $9.6 million and lease principal payments of $3.7 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 for 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 a $7.3 million reduction 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 June 30, 2020, the Company's net Total Debt to Adjusted EBITDA ratio was 16.52:1.00.

Advances under the credit facilities are limited by a borrowing base. The borrowing base is calculated based on the sum of 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 June 30, 2020, the Company had used $0.9 million of its credit facilities for letters of credit and had $170.0 million of borrowings under its credit facilities, leaving $204.1 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 June 30, 2020 resulted in a liquidity amount of $62.9 million.

The Company's credit facilities contain certain financial covenants. As shown in the table below, at June 30, 2020, the Company was in compliance with the financial covenants associated with its credit facilities.

As at June 30,	Covenant 2020	**Actual 2020**
Working capital ratio not to fall below	1.15x	**2.53x**
Funded Debt to Adjusted EBITDA not to exceed(1)(2)	3.00x	**1.92x**
Funded Debt to Capitalization not to exceed(1)(3)	0.30x	**0.12x**

(1) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes, second lien senior 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+ agreement on crude oil production cuts, the Company has very limited insight as to 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 Adjusted 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, and would also trigger cross-default under the indenture governing the Old Notes and New Notes.

Additionally, the Company elected to defer its cash interest payment that was due on June 15, 2020 in respect of its outstanding Old Notes. Under the terms of the unsecured notes indenture, the Company had 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 would occur. The Company had both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place. During the grace period, the Company disclosed that it had retained financial advisors and planned to use the grace period to consider alternatives for addressing its capital structure.

On July 14, 2020, the Company announced that it had obtained a preliminary interim order under the Canada Business Corporations Act, which included, among other things, a stay of proceedings against certain creditors, and announced a recapitalization transaction to restructure its senior Old Notes. The completion of the recapitalization transaction will significantly reduce the Company's total debt and provide additional liquidity to fund ongoing operations. The recapitalization transaction is subject to stakeholder and Court approval, which if obtained, is expected to be completed late in the third quarter or during the fourth quarter of 2020.

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 currently been reached in respect of any amendments to the credit facilities, the banking syndicate is supportive of the proactive measures that the Company has taken to address the rapid and unforeseen deterioration in business conditions in 2020. These measures included significant headcount and salary reductions, the restriction of discretionary spending, the elimination of certain compensation programs and bonuses, and a 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. he 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 Old Notes and New 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 June 30, 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 June 30, 2020, the Company's Fixed Charge Coverage Ratio of 0.86:1 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 $9.7 million for the three months ended June 30, 2020 versus $34.1 million in the comparable period in 2019. Cash outflows relating to capital expenditures were $10.2 million in 2020 compared to $36.7 million during the same period 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 June 30, 2020 was a loss of $3.0 million versus a loss of $4.0 million in the same period in 2019. These losses relate to movements of cash and cash equivalents held by the Company in a foreign currency during the period.

At June 30, 2020, the Company had a cash balance of $87.9 million.

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 July 29, 2020, the Company had issued and outstanding 145,171,194 common shares, 890,770 equity-based performance share units and 9,857,915 options to purchase common shares.

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 a proposed recapitalization transaction to restructure the Company's senior unsecured notes, including its expected impacts on the Company's debt and liquidity and the expected timing of completion thereof, expected operating strategies and targets, capital expenditure programs, future financial resources, anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's financing activities and restrictions, including with regard to its credit agreement and the indentures pursuant to which its senior unsecured notes and second lien secured 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 recapitalization transaction will be completed as proposed, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effectiveness of cost reduction measures instituted by the Company and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

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

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

BUSINESS RISKS

The business of Calfrac is subject to certain risks and uncertainties. Prior to making any investment decision regarding Calfrac, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which 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 Suite 500, 407 - 8th Avenue S.W., Calgary, Alberta, Canada, T2P 1E5, or at www.calfrac.com, or by facsimile at 403-266-7381.

NON-GAAP MEASURES

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

Operating income (loss) is defined as net income (loss) before depreciation, foreign exchange gains or losses, gains or losses on disposal of property, plant and equipment, 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. Operating income for the period was calculated as follows:

	Three Months Ended Jun. 30,		**Six Months Ended Jun. 30,**	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
(unaudited)				
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Add back (deduct):				
Depreciation	**46,195**	61,490	**109,458**	133,626
Foreign exchange (gains) losses	**2,012**	918	**1,922**	1,431
Loss (gain) on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment	**173,684**	—	**227,208**	—
Impairment of inventory	**27,868**	—	**27,868**	—
Impairment of other assets	—	—	**507**	—
Gain on exchange of debt	—	—	**(130,444)**	—
Interest	**20,723**	21,479	**46,766**	42,709
Income taxes	**(401)**	(4,646)	**113,682**	(18,095)
Operating (loss) income	**(7,307)**	41,103	**(1,609)**	84,726

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

	Three Months Ended Jun. 30,		**Six Months Ended Jun. 30,**	
	2020	2019	**2020**	2019
(C$000s)			***($)***	*($)*
(unaudited)				
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Add back (deduct):				
Depreciation	**46,195**	61,490	**109,458**	133,626
Unrealized foreign exchange losses	**1,962**	1,287	**(318)**	1,431
(Gain) loss on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment	**173,684**	—	**227,208**	—

Impairment of inventory	**27,868**	—	**27,868**	—
Impairment of other assets	**—**	—	**507**	—
Restructuring charges	**2,352**	2,455	**4,973**	2,475
Stock-based compensation	**(180)**	1,196	**503**	2,008
Losses attributable to non-controlling interest				
Interest	**20,723**	21,479	**46,766**	42,709
Income taxes	**(401)**	(4,646)	**113,682**	(18,095)
Adjusted EBITDA[(1)]	**(5,185)**	45,123	**1,627**	89,209

[(1)]For bank covenant purposes, EBITDA includes an additional $9.6 million of lease payments for the six months ended June 30, 2020 (six months ended June 30, 2019 - $11.7 million) that would have been recorded as operating expenses prior to the adoption of IFRS 16 on January 1, 2019.

ADDITIONAL INFORMATION

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

SECOND QUARTER CONFERENCE CALL

Calfrac will be conducting a conference call for interested analysts, brokers, investors and news media representatives to review its 2020 second-quarter results at 10:00 a.m. (Mountain Time) on Thursday, July 30, 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 4893496). A webcast of the conference call may be accessed via the Company's website at www.calfrac.com.

CONSOLIDATED BALANCE SHEETS

	June 30, 2020	December 31, 2019
(C$000s) (unaudited)	***($)***	*($)*
ASSETS		
Current assets		
Cash and cash equivalents	**87,920**	42,562
Accounts receivable	**71,535**	216,647
Income taxes recoverable	**4,632**	1,608
Inventories (note 3)	**92,568**	127,620
Prepaid expenses and deposits	**22,373**	17,489
	279,028	405,926
Non-current assets		
Property, plant and equipment (note 4)	**707,242**	969,944
Right-of-use assets	**32,548**	29,760
Deferred income tax assets	**—**	120,292
Total assets	**1,018,818**	1,525,922
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**110,132**	143,225
Current portion of lease obligations	**11,731**	13,929
	121,863	157,154
Non-current liabilities		
Long-term debt (note 5)	**910,580**	976,693
Lease obligations	**20,570**	16,990
Deferred income tax liabilities	**—**	6,462
Total liabilities	**1,053,013**	1,157,299
Capital stock (note 6)	**510,510**	509,235
Contributed surplus	**43,544**	44,316
Loan receivable for purchase of common shares	**(2,500)**	(2,500)
Accumulated deficit	**(585,306)**	(185,174)
Accumulated other comprehensive income	**(443)**	2,746
Total equity	**(34,195)**	368,623
Total liabilities and equity	**1,018,818**	1,525,922

Going Concern (note 1)
Contingencies (note 9)
See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s, except per share data) (unaudited)	***($)***	*($)*	***($)***	*($)*
Revenue	**91,423**	429,638	**396,938**	904,650
Cost of sales	**133,715**	432,858	**479,725**	917,179
Gross loss	**(42,292)**	(3,220)	**(82,787)**	(12,529)
Expenses				
Selling, general and administrative	**11,210**	17,167	**28,280**	36,371
Foreign exchange losses	**2,012**	918	**1,922**	1,431
(Gain) loss on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment (note 4)	**173,684**	—	**227,208**	—
Impairment of inventory (note 3)	**27,868**	—	**27,868**	—

Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt (note 5)	**—**	—	**(130,444)**	—
Interest	**20,723**	21,479	**46,766**	42,709
	235,384	42,471	**203,663**	82,945
Loss before income tax	**(277,676)**	(45,691)	**(286,450)**	(95,474)
Income tax expense (recovery) (note 2)				
Current	**20**	1,003	**77**	2,648
Deferred	**(421)**	(5,649)	**113,605**	(20,743)
	(401)	(4,646)	**113,682**	(18,095)
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Loss per share (note 6)				
Basic	**(1.91)**	(0.28)	**(2.76)**	(0.54)
Diluted	**(1.91)**	(0.28)	**(2.76)**	(0.54)

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 June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustment	**4,161**	1,363	**(3,189)**	4,716
Comprehensive loss	**(273,114)**	(39,682)	**(403,321)**	(72,663)

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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	—	—	—	—	(400,132)	**(400,132)**
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	(3,189)	—	**(3,189)**
Comprehensive loss	—	—	—	(3,189)	(400,132)	**(403,321)**
Stock options:						
Stock-based compensation recognized	—	264	—	—	—	**264**
Performance share units:						
Stock-based compensation recognized	—	239	—	—	—	**239**
Shares issued (note 6)	1,275	(1,275)	—	—	—	**—**
Balance – June 30, 2020	**510,510**	**43,544**	**(2,500)**	**(443)**	**(585,306)**	**(34,195)**
Balance – January 1, 2019	508,276	40,453	(2,500)	(3,438)	(28,971)	513,820
Net loss	—	—	—	—	(77,379)	(77,379)
Other comprehensive income (loss):						
Cumulative translation adjustment	—	—	—	4,716	—	4,716
Comprehensive income (loss)	—	—	—	4,716	(77,379)	(72,663)
Stock options:						
Stock-based compensation recognized	—	1,369	—	—	—	1,369
Proceeds from issuance of shares (note 6)	252	(56)	—	—	—	196
Performance share units:						
Stock-based compensation recognized	—	639	—	—	—	639
Shares issued (note 6)	707	(707)	—	—	—	—
Balance – June 30, 2019	**509,235**	**41,698**	**(2,500)**	**1,278**	**(106,350)**	**443,361**

See accompanying notes to the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s) (unaudited)	***($)***	*($)*	***($)***	*($)*
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Adjusted for the following:				
Depreciation	**46,195**	61,490	**109,458**	133,626
Stock-based compensation	**(180)**	1,196	**503**	2,008
Unrealized foreign exchange losses (gains)	**1,962**	1,287	**(318)**	1,431
(Gain) loss on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment (note 4)	**173,684**	—	**227,208**	—
Impairment of inventory (note 3)	**27,868**	—	**27,868**	—

Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt (note 5)	**—**	—	**(130,444)**	—
Interest	**20,723**	21,479	**46,766**	42,709
Interest paid	**(2,612)**	(38,613)	**(9,080)**	(40,186)
Deferred income taxes	**(421)**	(5,649)	**113,605**	(20,743)
Changes in items of working capital	**127,077**	(14,639)	**83,072**	17,261
Cash flows provided by (used in) operating activities	**116,908**	(11,587)	**70,569**	61,161
FINANCING ACTIVITIES				
Issuance of long-term debt, net of debt issuance costs	**34,146**	42,350	**58,404**	41,158
Long-term debt repayments	**(43,727)**	(6,555)	**(43,727)**	(26,555)
Lease obligation principal repayments	**(3,718)**	(5,234)	**(8,644)**	(10,605)
Proceeds on issuance of common shares	**—**	171	**—**	196
Cash flows (used in) provided by financing activities	**(13,299)**	30,732	**6,033**	4,194
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(10,203)**	(36,747)	**(37,016)**	(69,760)
Proceeds on disposal of property, plant and equipment	**379**	2,626	**1,028**	(186)
Proceeds on disposal of right-of-use assets	**104**	—	**412**	—
Cash flows used in investing activities	**(9,720)**	(34,121)	**(35,576)**	(69,946)
Effect of exchange rate changes on cash and cash equivalents	**(2,972)**	(3,995)	**4,332**	(6,117)
Increase (decrease) in cash and cash equivalents	**90,917**	(18,971)	**45,358**	(10,708)
(Bank overdraft) cash and cash equivalents, beginning of period	**(2,997)**	60,164	**42,562**	51,901
Cash and cash equivalents, end of period	**87,920**	41,193	**87,920**	41,193

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 and six months ended June 30, 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 reported results thus far in 2020 and its near-term outlook.

At June 30, 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+ 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, and would also trigger cross-default under the indentures governing the senior unsecured notes and second lien senior notes.

Additionally, 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 had 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 would have occurred. The Company had both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place. During the grace period, the Company disclosed that it had retained financial advisors and planned to use the grace period to consider alternatives for addressing its capital structure. See note 11 for further information regarding regarding the Company's senior unsecured notes.

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 currently been reached in respect of any amendments to the credit facilities, the banking syndicate is supportive of the proactive measures that the Company has taken to address the rapid and unforeseen deterioration in 2020 business conditions. These measures included significant headcount and salary reductions, the restriction of discretionary spending, the elimination of certain compensation programs and bonuses, and a 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 $5,387 of loss on disposal of property, plant, and equipment being reclassified to depreciation expense on the statement of operations for the three months ended June 30, 2019 and $15,995 for the six months ended June 30, 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 first quarter of 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.

(d) Government Subsidies

The Company adopted the following accounting policy as a result of qualifying for the Canada Emergency Wage Subsidy ("CEWS") program. Government subsidies are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that subsidy will be received. Government subsidies related to period expenses are recorded as a reduction of related expenses. During the six months ended June 30, 2020, the Company qualified for the CEWS program and recognized $4,515 as a reduction of salaries and wages expense.

3. INVENTORIES

The Company reviews the carrying value of its inventory on an ongoing basis for obsolescence and to verify that the carrying value exceeds the net realizable amount. During the three months and six months ended June 30, 2020, the Company recorded an impairment charge of $27,868 to write-down inventory to its net realizable amount in Canada, United States and Argentina (three and six months June 30, 2019 – $nil).

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Canada	**6,200**	**—**	**6,200**	—
United States	**10,668**	**—**	**10,668**	—
Argentina	**11,000**	**—**	**11,000**	—
	27,868	**—**	**27,868**	—

4. 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 continue to be negatively impacted by the global economic slowdown due to 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 6.5 percent to 33.3 percent depending on the CGU.

The cash flows were prepared on a five-year basis, using a discount rate ranging from 13.1 percent to 21.2 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 $173,684 for the three months ended June 30, 2020 and $227,208 for the six months ended June 30, 2020 (three and six months ended June 30, 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	67,419	None	25,458	78,355
10% decrease in expected future cash flows	101,254	None	28,268	81,002
1% decrease in discount rate	78,362	None	26,441	79,433
1% increase in discount rate	90,034	None	27,266	79,913

Assumptions that are valid at the time of preparing the impairment test at June 30, 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.

The impairment losses by CGU are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s)	***($)***	*($)*	***($)***	*($)*
Canada	**78,136**	—	**116,280**	—
United States	**—**	—	**15,380**	—
Argentina	**68,669**	—	**68,669**	—
Russia	**26,879**	—	**26,879**	—
	173,684	—	**227,208**	—

5. LONG-TERM DEBT

	June 30, 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	**590,813**	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	**164,184**	—
$375,000 extendible revolving term loan facility, secured by Canadian and U.S. assets of the Company	**170,000**	147,988
Less: unamortized debt issuance costs	**(14,417)**	(15,515)
	910,580	976,693

The fair value of the senior unsecured notes, as measured based on the closing quoted market price at June 30, 2020, was $44,346 (December 31, 2019 – $342,078). The fair value of the second lien senior notes, as measured based on the closing market price at June 30, 2020 was $124,655 (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 June 30, 2020, the Company's net Total Debt to Adjusted EBITDA ratio was 16.52:1.00 (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 six months ended June 30, 2020 was $45,860 (six months ended June 30, 2019 – $41,526).

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

	2020
(C$000s)	*($)*
Balance, January 1	976,693
Issuance of long-term debt, net of debt issuance costs	58,404
Long-term debt repayments	(43,727)
Gain on exchange of debt	(130,444)
Amortization of debt issuance costs and debt discount	8,305

Foreign exchange adjustments	41,349
Balance, June 30	910,580

At June 30, 2020, the Company had utilized $889 of its loan facility for letters of credit, had $170,000 outstanding under its revolving term loan facility, leaving $204,111 in available credit, subject to a monthly borrowing base, as determined using the previous month's results, which at June 30, 2020, resulted in liquidity in the amount of $62,897.

See note 8 for further details on the covenants in respect of the Company's long-term debt. See note 1 and 11 for further details regarding the Company's senior unsecured notes.

6. CAPITAL STOCK

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

	Six Months Ended June 30, 2020		Year Ended 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 June 30, 2020 was 145,001,994 basic and 145,616,827 diluted (three months ended June 30, 2019 – 144,456,281 basic and 146,070,230 diluted). The weighted average number of common shares outstanding for the six months ended June 30, 2020 was 144,971,584 basic and 145,589,950 diluted (six months ended June 30, 2019 – 144,430,310 basic and 146,148,439 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 7.

7. SHARE-BASED PAYMENTS

(a) Stock Options

Six Months Ended June 30,		**2020**		2019
Continuity of Stock Options	**Options**	**Average Exercise Price**	Options	Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Balance, January 1	**12,203,008**	**3.16**	9,392,095	4.70
Granted	**54,900**	**0.62**	1,564,300	2.49
Exercised for common shares	**—**	**—**	(98,675)	1.99
Forfeited	**(2,285,986)**	**3.93**	(496,501)	4.94
Expired	**(107,100)**	**8.53**	(35,000)	18.59
Balance, June 30	**9,864,822**	**2.91**	10,326,219	4.33

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 $0.26 to $7.89 with a weighted average remaining life of 2.91 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 $0.27 per option (six months ended June 30, 2019 – $1.02 per option). The Company applied the following assumptions in determining the fair value of options on the date of grant:

Six Months Ended June 30,	**2020**	2019
Expected life (years)	**3.00**	3.00
Expected volatility	**71.18 %**	59.16 %
Risk-free interest rate	**0.87 %**	1.66 %
Expected dividends	**$0.00**	$0.00

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

(b) Share Units

Six Months Ended June 30,		**2020**			2019
Continuity of Stock Units	**Deferred Share Units**	**Performance Share Units**	Deferred Share Units	Performance Share Units	Restricted Share Units
	(#)	***(#)***	*(#)*	*(#)*	*(#)*
Balance, January 1	**145,000**	**1,294,564**	145,000	1,108,300	3,139,150
Granted	**105,000**	**998,394**	145,000	1,112,531	—
Exercised	**—**	**(282,306)**	(145,000)	(556,683)	(1,998,600)
Forfeited	**—**	**(335,375)**	—	(62,661)	(71,750)
Balance, June 30	**250,000**	**1,675,277**	145,000	1,601,487	1,068,800

	Three Months Ended June 30, 2020	2019	**Six Months Ended June 30, 2020**	2019
	($)	*($)*	***($)***	*($)*
Expense (recovery) from:				

Stock options	**(235)**	758	**264**	1,369
Deferred share units	**(5)**	44	**(132)**	156
Performance share units	**55**	187	**239**	952
Restricted share units	**—**	(909)	**—**	(126)
Total stock-based compensation expense	**(185)**	80	**371**	2,351

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 June 30, 2020, the liability pertaining to deferred share units was $34 (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 June 30, 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.

8. 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. See note 11 for further information related to the Company's proposed plan for addressing its capital structure.

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	**June 30, 2020**	December 31, 2019
(C$000s)	***($)***	*($)*
Net loss	**(478,956)**	(156,203)
Adjusted for the following:		
Depreciation	**237,059**	261,227
Foreign exchange losses	**6,832**	6,341
Loss on disposal of property, plant and equipment	**992**	1,870
Impairment of property, plant and equipment	**229,373**	2,165
Impairment of inventory	**31,612**	—
Impairment of other assets	**507**	3,744
Gain on exchange of debt	**(130,444)**	—
Interest	**89,883**	85,826
Income taxes	**79,551**	(52,226)
Operating income	**66,409**	152,744

Net debt for this purpose is calculated as follows:

As at	**June 30, 2020**	December 31, 2019
(C$000s)	***($)***	*($)*
Long-term debt, net of debt issuance costs and debt discount	**910,580**	976,693
Lease obligations	**32,301**	30,919
Less: cash and cash equivalents	**(87,920)**	(42,562)
Net debt	**854,961**	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 June 30, 2020, the net debt to operating income ratio was 12.87:1 (December 31, 2019 – 6.32:1) calculated on a 12-month trailing basis as follows:

For the Twelve Months Ended	**June 30, 2020**	December 31, 2019
(C$000s, except ratio)	***($)***	*($)*
Net debt	**854,961**	965,050
Operating income	**66,409**	152,744
Net debt to operating income ratio	**12.87:1**	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 June 30, 2020 and December 31, 2019, the Company was in compliance with its covenants with respect to its credit facilities.

As at June 30,	Covenant 2020	**Actual 2020**
Working capital ratio not to fall below	1.15x	**2.53x**

Funded Debt to Adjusted EBITDA not to exceed[(1)(2)]	3.00x	**1.92x**
Funded Debt to Capitalization not to exceed[(1)(3)]	0.30x	**0.12x**

(1) Funded Debt is defined as Total Debt excluding all outstanding senior unsecured notes, second lien senior 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 June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(C$000s)			***($)***	*($)*
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Add back (deduct):				
Depreciation	**46,195**	61,490	**109,458**	133,626
Unrealized foreign exchange losses (gains)	**1,962**	1,287	**(318)**	1,431
(Gain) loss on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment	**173,684**	—	**227,208**	—
Impairment of inventory	**27,868**	—	**27,868**	—
Impairment of other assets	**—**	—	**507**	—
Restructuring charges	**2,352**	2,455	**4,973**	2,475
Stock-based compensation	**(180)**	1,196	**503**	2,008
Gain on exchange of debt	**—**	—	**(130,444)**	—
Interest	**20,723**	21,479	**46,766**	42,709
Income taxes	**(401)**	(4,646)	**113,682**	(18,095)
Adjusted EBITDA*(1)*	**(5,185)**	45,123	**1,627**	89,209

(1) For bank covenant purposes, EBITDA includes an additional $9,592 of lease payments for the six months ended June 30, 2020 (six months ended June 30, 2019 - $11,657) 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 June 30, 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 June 30, 2020, the Company's Fixed Charge Coverage Ratio of 0.86:1 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 11 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.

9. 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 $10,478 (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 $10,478 (6,846 euros) cited above and the interest being sought in respect of these orders is part of the $29,039 (18,974 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 the new hearing date has been scheduled for September 8, 2020. 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 $4,380 (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 $884 (578 euros), amounted to $29,039 (18,974 euros) as at June 30, 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.

10. SEGMENTED INFORMATION

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

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

	Canada	**United States**	**Russia**	**Argentina**	**Corporate**	**Consolidated**
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Three Months Ended June 30, 2020						
Revenue	**27,813**	**38,192**	**23,937**	**1,481**	**—**	**91,423**
Operating income (loss)[1]	**6,328**	**(4,951)**	**2,752**	**(6,445)**	**(4,991)**	**(7,307)**
Segmented assets	**263,776**	**652,030**	**48,942**	**54,070**	**—**	**1,018,818**
Capital expenditures	**2,138**	**2,624**	**292**	**1,014**	**—**	**6,068**
Three Months Ended June 30, 2019						
Revenue	88,420	259,085	28,704	53,429	—	429,638
Operating income (loss)[1]	8,109	37,050	121	3,793	(7,970)	41,103
Segmented assets	532,981	859,519	106,178	166,115	—	1,664,793
Capital expenditures	6,544	19,915	274	11,051	—	37,784

	Canada	United States	Russia	Argentina	Corporate	Consolidated
(C$000s)	*($)*	*($)*	*($)*	*($)*	*($)*	*($)*
Six Months Ended June 30, 2020						
Revenue	**132,432**	**192,304**	**44,928**	**27,274**	**—**	**396,938**
Operating income (loss)[1]	**18,303**	**236**	**454**	**(8,077)**	**(12,525)**	**(1,609)**
Segmented assets	**263,776**	**652,030**	**48,942**	**54,070**	**—**	**1,018,818**
Capital expenditures	**6,372**	**26,655**	**879**	**1,445**	**—**	**35,351**
Six Months Ended June 30, 2019						
Revenue	219,815	518,210	57,782	108,843	—	904,650
Operating income (loss)[1]	21,835	74,794	(2,655)	8,648	(17,896)	84,726
Segmented assets	532,981	859,519	106,178	166,115	—	1,664,793
Capital expenditures	10,465	39,343	2,453	13,741	—	66,002

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2019	**2020**	2019
(C$000s)	*($)*	*($)*	*($)*	*($)*
Net loss	**(277,275)**	(41,045)	**(400,132)**	(77,379)
Add back (deduct):				
Depreciation	**46,195**	61,490	**109,458**	133,626
Foreign exchange losses	**2,012**	918	**1,922**	1,431
(Gain) loss on disposal of property, plant and equipment	**(113)**	2,907	**1,556**	2,434
Impairment of property, plant and equipment	**173,684**	—	**227,208**	—
Impairment of inventory	**27,868**	—	**27,868**	—
Impairment of other assets	**—**	—	**507**	—
Gain on exchange of debt	**—**	—	**(130,444)**	—
Interest	**20,723**	21,479	**46,766**	42,709
Income taxes	**(401)**	(4,646)	**113,682**	(18,095)
Operating (loss) income	**(7,307)**	41,103	**(1,609)**	84,726

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

11. SUBSEQUENT EVENT

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 had 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 would have occurred. The Company had both the ability and financial capacity to make this interest payment pursuant to the terms of the credit facilities currently in place. During the grace period, the Company disclosed that it had retained financial advisors and planned to use the grace period to consider alternatives for addressing its capital structure. On July 14, 2020, the Company announced that it had obtained a preliminary interim order under the provisions of the Canada Business Corporations Act, which included, among other things, a stay of proceedings against certain creditors, and announced a recapitalization transaction to restructure its senior unsecured notes. The completion of the recapitalization transaction will significantly reduce the Company's total debt and provide additional liquidity to fund ongoing operations. The recapitalization transaction is subject to stakeholder and Court approval, which if obtained, is expected to be completed late in the third quarter or during the fourth quarter of 2020.

SOURCE Calfrac Well Services Ltd.

For further information: Lindsay Link, President & Chief Operating Officer, Mike Olinek, Chief Financial Officer, Scott Treadwell, Vice-President, Capital Markets & Strategy, Telephone: 403-266-6000, Fax: 403-266-7381, www.calfrac.com